ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

EXAMINER'S REPORT

LEVEL I EXAMINATION - JULY 2023

(103) ECONOMICS

It was observed that most of the candidates have answered the Economics paper at quantitatively acceptable level. However, when it is taken as a whole it was evident that there are some mistakes in questions which had been answered by the 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 selection of 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. For questions **1.13** and **1.14** it was required to state whether the given statements are "True" or "False" and to write short answers to questions **1.15** to **1.20**.

Most of the candidates scored successfully for this questions, while some others had weaknesses in giving their answers. The following are some of the common errors / weaknesses in the answers given by the candidates for each sub section:

1.1   This question asked about reward for factors of production. Most of the candidates answered correctly that the reward for entrepreneurship is "profit".

1.2   The candidates had not successfully answered this question, which was asked to test the knowledge of indifference curves. It seems that most of the candidates have less knowledge about indifference curves.

1.3   This question which was asked to test the knowledge of elasticity, was correctly answered by majority finding that the relationship between A and B is related to substitute goods.

1.4   As the answer for this question is below one, many candidates successfully answered this question.

1.5   Candidates did not successfully answer this question on the economic growth rate in 2022. It seems that central bank report is less used to gain practical knowledge.

1.6   This question inquired about the negative impact of economic growth. However, answers were not successful.

1.7   Many candidates correctly identified the concept used to describe the shift of the supply curve to the right as "increase in supply".

1.8   Many candidates successfully answered this question, which was asked to test their knowledge on the characteristics of a perfectly competitive market.

1.9   Candidates have successfully identified "relative scarcity" as the irrelevant function for this question asked about the functions of money, indicates that they have a thorough understanding of the functions of money.

1.10   Most of the candidates had correctly calculated the total direct cost and total indirect cost by considering wages paid, purchase of raw material, economic depreciation for total direct cost and economic depreciation, interest income forgone to calculate indirect cost.

Candidates scored successfully for **1.11** to **1.12** which was given to choose the correct answer from the two answers. These questions tested about macro-economics, micro-economics and marginal costing.

Candidates were allowed to provide brief answers to questions **1.15** to **1.20**.

Questions on characteristics of economic goods, characteristics of an oligopoly market, differences between narrow money supply and broad money supply were successfully answered.

But the factors affecting the money supply of a country, the determinants of price elasticity of demand and how to achieve the equilibrium by a firm under the perfect competition in the short-run had not been answered successfully.

There were only a few candidates who scored all 40 marks in this section.

Section B

Question No. 02

(a)   Many candidates had successfully answered the question on how the 'market economic system' and the 'planned economic system' solve basic economic problems and obtained high marks. However, some candidates were confused of different market systems.

(b)   Characteristics of the land was mentioned correctly by most of the candidates. Some candidates had written the characteristics of economic goods instead of the characteristics of land.

(c)   Economics is considered as a social science and many candidates had given the correct answers and obtained the allocated marks by stating that Economics is a study of man and society and where the economic aspect of man is studied in the society. Some other candidates had not attempted this question.

Question No. 03

(a) **(i)** Most of the candidates had correctly calculated the equilibrium price and quantity and obtained total marks. However, some candidates could not solve the simultaneous equation correctly.

(ii) Most of the candidates had not calculated the production surplus correctly. Candidates lack the ability to draw the correct supply curve according to the supply equation given. Candidates should obtain proper knowledge on it.

(b) Some candidates had done the relevant diagram and explanation correctly. Candidates had a better understanding that the equilibrium price and quantity got changed without any change to the demand curve. Also, they understood that the supply curve is shifted to the right due to the subsidy, and they had a better idea on the loss of welfare due to the subsidy.

However, even the candidates who scored higher marks for other questions had given incorrect answers for this question. Instead of shifting the supply curve to the right due to the subsidy, the demand curve had been shifted to the left and the supply curve was kept unchanged. Some candidates illustrated the diagram correctly, but forgot to explain it.

Question No. 04

(a) Most of the candidates provided correct answers for the question on reasons for inflation in Sri Lanka based on the current economic information available in Sri Lanka. Some candidates gave answers based on practical facts and some candidates gave answers based on theory. However, some candidates should be aware of the current inflationary situation, as they were unable to provide satisfactory answers for this question.

(b) It was inquired about the remedies to reduce the present inflationary situation in Sri Lanka. Although only a few candidates have answered this question correctly, based on the current economic environment in Sri Lanka. Majority of the candidates attempted the question, but only a few obtained the total marks.

(c) Very few candidates have correctly explained how the monetary policy affects Sri Lankan businesses. Some candidates did not realize that high interest rate is disadvantageous to investors. Majority of candidates did not provide correct answers.

Question No. 05

(a) Most of the candidates answered this question on items in the financial account of the balance of payments statement correctly but some candidates stated types of accounts in the balance of payments statement incorrectly, and it was clear that some candidates had no knowledge about this area.

(b) Arguments for and against protectionism were correctly identified by many candidates. Candidates knew that protectionism would protect the country's small-scale entrepreneurs.

(c) The economic consequences of depreciation of Sri Lankan rupee against the US dollar were successfully stated by some candidates, but the majority did not attempt to answer this question. It is a sad fact that the candidates' knowledge on this area, which is a burning issue in Sri Lanka these days, is at a very low level.

For this question, only a few candidates scored full marks.

Section C

Question No. 06

(A) Many candidates correctly named and explained the phases of the business cycle as expansion, peak, contraction and trough. Some of the candidates had given their answers very clearly using a diagram as well. But some candidates have only named the phases although it was required to explain those.

(B) In this calculation most of the candidates did not have a clear understanding as to where the two concepts of other taxes less subsidies on production and net taxes on production and imports should be adjusted. Candidates should obtain a clear understanding about it.

Most of the candidates had correctly adjusted foreign net primary income when converting gross domestic product at market price to gross national income at market price.

(C) Only a few candidates have correctly identified the 3 main sectors of macro-economics. Many candidates mentioned wrong answers for this. This was a very simple question and marks would have been scored easily.

(D) When explaining the difference between contractionary and expansionary fiscal policy, many candidates confused of fiscal and monetary policy and explained the details of monetary policy instead of fiscal policy.

Further, when explaining the contractionary and expansionary policies, they have mixed up the ideas. This shows that the candidates had no clear understanding of contractionary and expansionary fiscal policy.

For this question, only a few candidates scored full marks.

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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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