

## Examiner's Report

### AA1 EXAMINATION - JANUARY 2019

### (AA13) ECONOMICS FOR BUSINESS & ACCOUNTING

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*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 there 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** – 40 marks

**(Compulsory Question)**

This question had been arranged for 40% of the full marks covering a broad area of the overall syllabus. It had been set based on basic scientific economic principles and concept to match with the weightage set out in the syllabus. Questions **1.1** to **1.10** required selection of the correct answer out of given options. Questions **1.11** to **1.15** required to state whether the given statements on principles / concepts were True / False, while questions **1.16** to **1.20** required of filling of blanks in sentences out of the given 2 options. These questions were set on a simple format.

It should be stated that many candidates had answered this question satisfactory and scored marks at a positive level. However, shortcomings in candidates' answers to some questions in this section were observed.

A few mistakes / weaknesses generally observed in the answers provided by candidates and comments are shown below:

- 1.1** The correct answer (4) had been written by all the candidates and full 2 marks obtained for this part by them.
- 1.2** Many candidates had stated "substitute goods" as the correct answer.
- 1.3** Many candidates had scored marks, stating that all 4 suggested answers correct. A few candidates had marked answer (2) as correct.
- 1.4** Only a few candidates had marked answer (4), which is the correct answer. Many candidates had written incorrect answers.
- 1.5** Answer (4) is the correct answer. Many had not selected that and had not earned any marks.
- 1.6** Most candidates had not been able to indicate suggested answer (3) as the correct answer to Macro Economic Objective of the government. They did not have a proper understanding on that.
- 1.7** There were many who selected the 4<sup>th</sup> option correctly as the correct characteristic of the market economy. Therefore, majority was able to score marks.

- 1.8** Most candidates had identified average total cost is equal to marginal cost at the minimum point.
- 1.9** Candidates had not been able to correctly state the per capita income in Sri Lanka in 2017 as per Central Bank Report. This shows that they had not used annual reports, such as the Central Bank Report.
- 1.10** Many candidates had correctly selected option 1, that is value of exports is greater than value of imports and obtained marks.

The correct answers for questions **1.11** to **1.15** were to be given by stating True or False of the given statements. Answers to these 5 questions were at an unsatisfactory level. The most incorrect answers were for question **1.11**. The knowledge of candidates on the indifference curve was tested. Incorrect answers had been provided due to non-understanding.

In questions **1.16** to **1.20** the correct answer had to be selected out of the 2 answers given. Many candidates had given wrong answers to question **1.20**.

It became clear from the incorrect answers that the knowledge of candidates on financial intermediation was not adequate. This was the question to which many could not score marks.

## **SECTION B**

4 compulsory questions each carrying 10 marks.

**Question No. 02** – 10 marks

**(Compulsory Question)**

- (a)** By calculating of equilibrium price and quantity through analysis of consumer behavior many candidates had provided correct answers and earned marks. But some candidates had not been able to correctly simplify the given equations.

Many candidates had failed to answer correctly **part (iii)** of this question. The section relating to moving away by consumer's taste appeared to have been beyond their comprehension. Therefore, most of them had understood it as increase or decrease of demand. Only a few candidates had answered correctly on reduction of demand and reduction of equilibrium price.

- (b)** Although this question had been set to test the knowledge of factors that determine the price elasticity of demand, the answers written by candidates had not matched the expectation of the question.

**Question No. 03** – 10 marks

**(Compulsory Question)**

- (a)** This is a question based on the concept of production and cost in Economics. It was proved from the answers that candidates had failed to explain correctly the difference between the shutdown point and breakeven point with the help of a graph. It can be stated that candidates had no understanding whatsoever about the shutdown point, and that as they were not aware that, it was necessary that at the breakeven point of the institution, the total income has to be equal to total cost, they had failed to draw the graph correctly and explain correctly.

- (b) (i) There were many candidates who listed 3 functions of a commercial bank and earned marks. But, some of the candidates had stated issuing of money, sales of treasury bills and securities and performing beneficial services to the economy.
- (ii) Most of the candidates had written National Savings Bank and Regional Development Bank as licensed commercial banks in Sri Lanka. It was clear in the process of checking every answer script that they had no proper understanding about commercial banks.

**Question No. 04** – 10 marks

**(Compulsory Question)**

- (a) This question had been set to test the knowledge of candidates on the demand for money under the concept of money and price level. It appeared to be a question to which correct answers had not been given. Candidates had no understanding to draw the graph correctly.

It was clear from the answers that candidates were not engaged in any study on equilibrium interest rate. Some candidates had drawn supply curves instead of demand curves and it was clear from the answers that such candidates had no correct understanding of demand and supply curves. This was a very poorly answered question.

- (b) This question had been set to test the current knowledge of candidates under the concept of inflation and price levels. Most candidates had correctly explained Demand Pull Inflation. Due to their inability to provide the correct answer to Cost Pull Inflation they had failed to earn full marks.

**Question No. 05** – 10 marks

**(Compulsory Question)**

- (a) This question had been set to test the knowledge of candidates on the concept of financial policy and its instruments.

How open market trade operations act as adequate controls in the management of money supply had not been meaningfully and correctly included in the answers presented by most of the candidates. The reason for that would have been failure to understand the question. There were answers in which other markets had been referred to for “open market”. They had no idea that it was a Central Bank activity. Some candidates had no correct understanding about the sale and purchases of Treasury Bills. Only a few candidates had written correct answers.

- (b) 2 disadvantages of protectionism was a question set under the concept of international trade. Many candidates had earned the 2 marks by writing the correct answer.

- (c) There were many candidates who earned the 4 marks with correct answers written by this question relating to devaluation of the Sri Lankan rupee. But some candidates had misunderstood devaluation and had written about the increase in value of the rupee.

## SECTION C

**Question No. 06** – 20 marks

**(Compulsory Question)**

- (A) (a)** This appears to be a question to test the practical knowledge of candidates under the concept of the role of the state under the market economy system. Most of the candidates had easily scored the 2 marks having stated disadvantages of public enterprises.
- (b)** To stating 4 main objectives of the government budget was expected by this question. Writing about income and expenditure, unimportant matters relating to public sector salaries had been presented.
- (B)** A minimum number of candidates obtained full marks to this question which was set to test practical understanding relating to “National Accounts”.
- (a)** Many candidates had attempted unsuccessfully to calculate Gross Value Added at basic price. A main reason for that had been not being aware as to how gross value added is calculated correctly. They had added compensation for employees and also added net indirect taxes while some candidates had added net foreign current transfers and presented incorrect answers thereby failing to obtain full marks.
- (b)** In arriving at Gross Domestic Product at market price, it had not been possible to obtain full marks as a result of being unsuccessful in answering (a) above and adding net taxes on production and imports to it, instead of adding net indirect taxes.
- (c)** In calculating Gross National Income, although some candidates had correctly added the net foreign primary income of Rs.1,200 million and obtained 1 mark., could not obtain full marks because prior calculations had been incorrect.
- (d)** In order to obtain Gross National Disposal income, candidates had added net indirect taxes instead of net foreign current transfers. They had failed to earn 10 marks which could have been easily obtained.
- In the process of evaluation of answer scripts it was proved that candidates had no understanding about equations that had to be applied for these calculations. It was also very clear from the answers that candidates did not have complete understanding and knowledge about National Accounting.
- (C) (a)** The answers written by some candidates about Economic Growth are very unsatisfactory. It was seen that matters relating to economic development had been written.
- (b)** Though answers provided by some candidates were not adequate, certain candidates had written very satisfactory answers obtaining full marks. Matters relating to economic growth had been written under economic development as well.

**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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