

Examiner's Report

AA1 EXAMINATION - JULY 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 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)

20 questions with 02 marks per each question. Total 40 marks.

It was noted that most of the candidates had provided satisfactory answers and obtained marks at a constructive level. However, weaknesses were observed in the answers to some of the parts.

Accordingly, common weaknesses observed and other comments are set out below:

- 1.1** Knowledge in Micro-Economics was expected to be tested by this question. Scarcity considered as the foundation of Economics and testing the knowledge on basic economic questions arising therefore on “choice” and “opportunity cost” have been tested. Most candidates had correctly answered this question.
- 1.2** Since the concept of demand is used in Economics, market equilibrium and elasticity have been used in this question to test the understanding of candidates. Majority of candidates had given correct answers.
- 1.3** This question has been set to test the knowledge on market structures. Majority of the candidates had identified the correct answer as “Monopoly”.
- 1.4** It was expected to test by this question whether candidates had a clear understanding about the movement of output under the concept of production and cost. Most of the candidates had written satisfactory answers.
- 1.5** This question aimed to test the practical understanding of candidates on the repercussions of government intervention in the free market system. Most of the answers were incorrect, because the concept of maximum price had not been understood.
- 1.6** Understanding and knowledge about definitions on classifications of money supply had been tested. It was observed that the answers of most candidates were incorrect. It denoted that the knowledge on the above concepts was not adequate.
- 1.7** Majority of the candidates had failed to arrive at mathematical solutions to calculate the rates of inflation out of data given from the Colombo Consumers’ Price Indices. The answers were unsatisfactory in all the answer scripts examined. It was evident that candidates lacked knowledge in this area.

- 1.8** This question has been set to test the knowledge on value of money. Majority of the candidates failed to write the correct answer, that is “Internal Real Value of Money”. They could not obtain marks due to not having a proper understanding about the value of money.
- 1.9** This question had been set to test the knowledge and understanding of candidates on injections to the flow of the National Income Cycle among the major sections of a Macro-Economy. For this question too, candidates who provided unsatisfactory answers were in the majority.
- 1.10** This was a question to test practical knowledge. Since associated reports with the subject, such as the central Bank Report had not been pursued, most of the candidates had provided unsatisfactory answers.

Candidates were required to select the correct answer upon identifying whether the statements given were true or false from **1.11** to **1.15**. Although on the whole, the answers to these questions appeared to be satisfactory, the answers provided by candidates to **1.12** were incorrect. That denotes that candidates’ knowledge on the utility concept was inadequate. Similarly the knowledge and understanding on the concept of demand for money, referred to in question **1.14** was also not at the sufficient level.

With regard to questions No. **1.16** to **1.20**, two answers had been given in the question and the correct one out of those had to be selected by candidates. It was to question No. **1.19** that most candidates had written incorrect answers. They had selected “Excess Interest Rates”. Further, for question No. 1.20, most candidates had selected erroneously “Economic Development” as the correct answer. It would therefore be necessary for candidates to improve their knowledge and understanding on the above matters.

SECTION B

4 compulsory questions each carrying 10 marks.

Question No. 02 – 10 marks

(Compulsory Question)

- (a) A simple question testing the knowledge on the Production Possibility Curve (PPC), stating three underlying assumptions was expected and the majority of candidates had successfully provided the answers. However, there were incorrect answers interpreting the definition of PPC without a proper understanding of this concept.
- (b) Three differences comparing the capitalist (market) economy with the socialist (planned) economy were expected through the answer with the objective of testing the knowledge of candidates on economic systems. Although many candidates had provided satisfactory answers, certain candidates had written unsatisfactory answers, namely, with defects such as:
- stating the characteristics of only one economic system,
 - stating the facts without comparing the structures of the two economic systems, and
 - stating characteristics of the market structures.

It was clear that the knowledge of candidates on theoretical concepts was not adequate.

- (c) Most candidates had correctly calculated the equilibrium price and quantity of the commodity using the given demand and supply equations. In some of the answers, among the defects, were found mathematical errors in additions and multiplications.

Question No. 03 – 10 marks

(Compulsory Question)

- (a) The answers provided by the majority of candidates to this question set to test the knowledge and understanding of the production concept were incorrect and there were many answer scripts where this question was not attempted at all. Total production was stated by them as the increase in the number of units produced. Further, by stating that average production is prevailing the quantity of units of goods and services produced at the same level, candidates failed to earn marks. Certain candidates had erroneously determined total production = average production + marginal production. It was very clear that candidates lacked adequate knowledge on this concept by the fact that a very few candidates only had been able to provide partly correct answers.
- (b) By means of stating the difference through a comparison of monopoly and monopolistic competition, understanding of the relevant concept was tested by this question. It did not appear that majority of the candidates had answered satisfactorily this question as well:
- Stating facts about monopoly only,
 - Same matter being stated in several ways,
 - Stating facts without a correct understanding of the concept of disabled access exit, were some of the defects noted in the answers. Only a handful of candidates were able to score full marks for this question.

Question No. 04 – 10 marks

(Compulsory Question)

- (a) Testing of knowledge and understanding on the consequences of government intervention in a market economy was expected by this question. Most of the candidates did not appear to have made use of the graph correctly to explain the consequences of granting a subsidy. The major defects observed were:
- Not naming correctly the demand and supply curves in the graph.
 - Explaining it without shifting the supply curve to the right, etc.

Few candidates were able to explain the relevant concepts correctly with the help of the graph. Further, most of the candidates failed to earn marks by their inability to state that the determination of distribution of the benefit of the subsidiary among consumers and producers would be made on the demand and supply trend of the relevant good.

- (b) (i) What was expected by this part was to examine the reasons for government intervention in the market economy system. Very unsatisfactory answers had been provided for this part too. Most candidates who provided answers had written about price controls and levying of taxes. They had not written about correction of the fall of the market and that the government intervention was for an equitable distribution of income and wealth. Out of the two marks allocated to this part most candidates had earned only one or zero mark.
- (ii) It was expected to mention two other methods by which the government could intervene in the market economy system other than by granting subsidiaries. Most of the candidates had written about price control and levying of taxes and earn 2 marks. But they had failed to mention the term “Indirect” taxes. They had also failed to write about public enterprises, supply of common goods and imposing of quotas. Examination of answer scripts make it very clear that candidates did not have a proper understanding on these aspects.

Question No. 05 – 10 marks

(Compulsory Question)

- (a) This question aimed at testing of the knowledge and understanding about theoretical concepts relating to international trade. The comparative advantage of each product had to be shown through calculations of the given data based on relevant comparative advantage theory. For this, the lowest opportunity cost of each product had to be calculated and most candidates had failed to do the calculation correctly. Further, some candidates had supplied answers based on absolute advantage. It was seen that the theoretical knowledge of candidates on the comparative advantage concept was not adequate.
- (b) This question required to state four consequences of devaluation of the Sri Lankan rupee against the US dollar. Only a very few of the candidates had written correct answers to this question. What candidates had written as answers was the difference between the dollar and the rupee.

For example, it had been written that the rupee was a small coin and the dollar was a thicker coin, the nominal value cannot be used for any future need and as to how the rupee value of the dollar is calculated.

Accordingly, it has to stated that the understanding of candidates on the devaluation of the rupee is extremely weak. Many candidates had repeated the same erroneous answer several times.

SECTION C

Question No. 06 – 20 marks

(Compulsory Question)

- (A) (i) This question required about the qualitative controls of the monetary policy of the Central Bank of Sri Lanka. It could be seen that many candidates had not written the complete answer. Most of the candidates had written as answer about quantitative controls of the Central Bank such as types of loans given to customers of commercial banks, the bank interest rate and variable reserve rate.

This question can be identified as one that tested the qualitative control methods, out of the two monetary control strategies of the Central Bank. What is meant by it is controlling the direction of monetary flow. Candidates had not been able to write the correct answer because they had confused that quantitative control methods expected to decrease or increase money supply quantitatively.

- (ii) Banks have to face the challenge of maintaining equilibrium between profitability and liquidity. Many candidates did not seem to understand what was raised in the question. Some candidates had written a short briefing about liquid assets under current assets of commercial banks. They had indicated that cash was the most liquid asset. But, they had no understanding to produce the correct answer expected. Only a very few candidates obtained the total 4 marks for this question.

- (B) This question tested about practical usage and understanding of National Income Accounting. Only a small number of candidates were able to earn full marks for this question.

Some candidates had deducted capital depreciation from Private Consumption Expenditure to arrive at Gross Domestic Expenditure, but not added Gross Domestic Capital formation.

- (C) This question expected candidates to state three Macro Economic Objectives. Only a handful of candidates had written satisfactory answers to this question.

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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