The Institute of
Chartered Accountants
of Pakistan

Assessment of Fundamental Competencies Stage Examinations

3 March 2015
50 marks – 1 hour 30 minutes
Additional reading time – 15 minutes

Functional English

Q.1 Write an essay of approximately 400 words on any one of the following topics:

(i) Impact of climate change on our lives
(ii) Television programs are one of the major causes of violence in society
(iii) Death penalty is a deterrent to major crime
(iv) Aggressive advertisements – uses and abuses **(20)**
Note: word count carries marks

Q.2 Write a précis of 125-135 words of the following passage. ***(Word count carries marks)***

Explanations of economic growth correlate prosperity with demography, natural resources, national culture and official policy choices. However, it is not societies, governments, or industries that create jobs but entrepreneurs who decide whether or not to invest or hire.

Different innovation strategies have radically different effects on economic growth and employment. Entrepreneurs, policymakers and investors collaborate to create conditions for sustained prosperity.

Innovation comes in three varieties. The first is what we call "Sustaining innovations", which replace old products with new ones. These innovations keep markets vibrant and competitive. Most of the changes in the market are sustaining innovations. These are by nature substitutive, because if a business succeeds in selling a better product, its existing customers won't buy the old product. Investments in sustaining innovations, rarely create much net growth or result in new jobs for macroeconomic growth.

"Efficiency innovation" is the second type; it enables companies to provide established products or services at lower prices. Efficiency innovations are critical for companies' survival. By producing more with less, efficiency innovations either eliminate jobs or outsource them to even more efficient providers. By producing more with fewer people, efficiency innovations make capital efficient.

Third type is "Market-creating innovation". Such innovations target products and services which are expensive and accessible only to few customers who can buy and use them. Market-creating innovations transform such offerings into cheap products and services that are accessible to reach an entirely new population of customers. Personal computers, smartphones and online equity trading are examples of market-creating innovations. Because more people can buy such products, innovators hire more people to manufacture, distribute, and service them. Market-creating innovations require new distribution channels to serve new markets. Market-creating innovations result in high growth and new jobs.

Market-creating innovations require an entrepreneur who can identify an unfulfilled customer need and a platform which enables technology or business model to bring significant advantages in economies of scale.

A strong economy needs a mix of all three classes of innovation. But only market-creating innovations create permanent employment that result in prosperity through new unmet needs and creating new value networks.

Market-creating innovation has helped achieve transformative growth and prosperity for certain nations. Development in Japan is mainly attributable to its success with market-creating innovations in motorcycles, automobiles, consumer electronics and office equipment.

(Total word count = 380) **(15)**

Q.3 **Read the following passage and answer the questions at the end of the passage:**

Roughly 2.5 billion people in the world who live on less than $2 a day are not destined to remain in a state of chronic poverty. Every few years, between 10-15 per cent of the world's poorest households escape chronic poverty by finding steady employment, pursuing entrepreneurial activities or improving agriculture harvests. However, an equal number of households slip below the poverty line due to health-related emergencies, crop failures, livestock deaths, and even wedding expenses.

Personal savings, credit or cash support from family and friends act as buffers against emergencies because most of the world's poor lack access to basic banking services. Approximately 77 per cent of the poor do not have a savings account; a greater number of them lack access to formal credit. Studies indicate that even those poor who have savings, are not profitable customers, so banks and other services providers prefer not to reach them.

Micro-credit programs have mitigated the problem and provided loans to approximately 200 million borrowers but that is hardly enough to reach the over two billion people who lack access to formal financial services. High overhead costs of administering micro-financing to small borrowers make the interest rates and fees associated with micro-credit steep.

Despite these challenges, certain trends indicate great promise for the next generation of poor towards financial-inclusion efforts. Mobile technology now covers some 90 per cent of the world's poor. This presents an extraordinary opportunity. Mobile-based financial tools have the potential to dramatically lower the cost of delivering banking services and increase real-value to the poor.

Mobile-finance offers three major advantages over traditional financial models. First, digital transactions are economical. In-person services and cash transactions account for the majority of bank expenses. Mobile-finance clients keep their money in digital form and can send and receive money often, even with distant parties without creating significant transaction costs for their banks or mobile service providers. Second, mobile communications generate data, which banks and other providers can use to identify more profitable services. Third, mobile platforms link banks to clients in real time and enable banks to relay account information and clients can sign-up for services quickly.

Mobile-money products enable clients to store money and also make remittances to family members in other parts of the country. Small business owners can become intermediaries in such transactions and improve their incomes and expand their customer base.

The high cost of basic banking infrastructure is the biggest barrier in providing financial services to the poor. In poor countries, banks usually locate ATMs and branch offices in the affluent, denser and safer areas. The cost of such infrastructure often exceeds the potential profits to be made in poor rural areas. In contrast, mobile-banking allows customers to carry out transactions in existing shops creating denser networks of transaction points at lower cost.

Due to the rapid proliferation of cell phones, it is possible to deliver financial services to more people than before. This has set the stage for further innovations by banks, cell-phone service providers, micro-finance lenders and entrepreneurs all of whom can play a role in delivering life-changing financial services to their clients.

(a) Give a suitable title to the passage. **(01)**

(b) How do poor people manage their financial emergencies? **(01)**

(c) Identify **four** factors which contribute to chronic poverty in less developed countries. **(02)**

(d) Identify **four** reasons why conventional banks are not able to address to the needs of the people in poor countries. **(02)**

(e) List the reasons which prevent the poor from obtaining loans from banks and micro-finance providers. **(01)**

(f) List the main features of mobile-money products. **(1.5)**

(g) List **three** benefits of mobile technology in contributing more effectively towards the efforts to provide financial-inclusion services to the people generally. **(1.5)**

(h) Identify the specific institutional beneficiaries from the proliferation of cell phone related financial services. **(02)**

(i) How do the chronically poor people manage to escape from their state of extreme poverty? **(1.5)**

(j) Why are the prospects for providing financial-inclusion facilities to the poor so encouraging in the foreseeable future? **(1.5)**

(THE END)