THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
EXAMINERS' COMMENTS

SUBJECT	**SESSION**
Introduction to Economics and Finance	Foundation Examination – Autumn 2013

General:

The overall performance of the candidates was quite satisfactory when compared with the previous few attempts. However, the performance should have been better as many of the questions were quite easy.

Question-wise comments are as under:

Question 1

The question consisted of 15 MCQs. The overall performance was good as 60% of the student secured passing marks. The best scoring MCQs were No. 5 and 9 whereas the worst attempted ones were 7 and 15.

Question 2 (a)

In this part, the candidates were required to discuss how resource allocation choices are made in market economy and in planned economy. The question was fairly easy but some students did not seem familiar with the word "resource allocation". Most such students simply described the two types of economic systems with no reference to resource allocation.

Question 2 (b)

This question was quite simple and almost all the students did well. A fairly large number of candidates were able to mention at least 3 disadvantages of planned economy and got 3 out of 4 marks. A significant number of students secured full marks also.

Question 3 (a)

Most of the candidates secured full marks in this part by correctly defining the term price discrimination along with the relevant examples. The common error among the low performers was that they mentioned about the different prices charged but did not elaborate that different prices are charged in different markets. Some students gave incorrect examples like the example of a house in posh area and the same type of house in a Katchi Abadi and prices charged by a super market and those charged by a small retailer.

Question 3 (b)

The requirement was to explain how a monopolist uses price discrimination to increase profitability. Many students talked about elasticity only without discussing how goods are moved from one market to another, to increase the revenue. Many students drew the diagram correctly but could not give appropriate explanation as to how the mechanism of price discrimination works. Many among them simply repeated the same words as were given in the question or changed them slightly. Many students did not label the diagram.

Question 4 (a)

This was another easy question but was one of the worst attempted. Majority of the candidates described 'Returns to Scale' as a variation in output due to change in one input instead of change in all inputs. Some students discussed output only without reference to input.

Question 4 (b)

In this part the candidates were required to differentiate between Returns to scale and the Law of Variable Proportions. Quite obviously, those who could not do well in part (a) also performed poorly in this part.

Question 4 (c)

Here again, only those students could perform well who had done well in part (a) and (b). Most such students were able to prepare the schedule and make the correct diagrams showing the relationship among total, average and marginal product of labour. However, their explanations were generally below the mark.

Question 5 (a)

Most of the students attempted this part well and wrote proper definition of indifference curves and identified their properties. However, some students gave long explanation of the properties of indifference curves which were not required. They even failed to notice that it was just a 3 marks question.

Question 5 (b)

In this part, most of the students performed well. However, many students drew the diagram correctly but did not explain the marginal rate of substitution and the reasons for its decline. Some students drew the curve but did not identify the marginal rate of substitution.

Question 6 (a)

The requirement was to explain progressive and proportional taxation and their merits and demerits. This question was quite simple and straightforward and more than 70% of the candidates performed well. However, a significant number of students confused proportional taxes for progressive tax and vice versa and could not score any mark.

Question 6 (b)

Here also, most of the students secured high marks. However, some of them defined direct and indirect taxes correctly but somehow gave incorrect examples which showed that they had used rote learning to memorize the definitions but lacked conceptual understanding.

Question 6 (c)

The candidates were required to explain how indirect taxation helps to promote economic development of a country. Most of the candidates seemed to concentrate on one aspect only i.e. that indirect taxes mobilize resource for public sector investment and thus lead to the economic development of the country. Very few candidates elaborated that indirect taxes also reduce the consumption of imported and luxurious goods and ultimately increase the savings ratio in an economy.

Question 7

This choice question was attempted by only about 20% of the candidates and even then, the performance was very poor.

Question 7 (a)

This question required the definition of the Multiplier and an example of its working. Most of the students managed to score 1 mark for the definition. The conceptual understanding seemed lacking as very few of them were able to prepare the schedule with MPC of 0.6. Many students prepared the schedule assuming the MPC as 0.8 or 0.9 most probably because they had memorized the figures!

Question 7 (b)

Quite a good number of people confused limitations of multiplier with the principal leakages that were required in part (c) of this question.

Question 7 (c) (i)

Since some of the students had already written the answer in part (b) they messed up this one by writing very different answers. Some repeated the points again and some failed to understand the question completely. Very few candidates were able to recognize that idle cash balances, imports, purchase of securities and price inflation are regarded as the principal leakages.

Question 7 (c) (ii)

Only 10% of the students could explain that in the absence of leakages, value of a multiplier would be unity (1.0) and full employment would prevail.

Question 8 (a)

About half the students described terms of trade well. However, most of them were unable to identify the factors that affect the terms of trade.

Question 8 (b)

The requirement was to discuss the advantages of international trade and the barriers which restrict international trade. Advantages were mostly discussed well; however, many students discussed disadvantages of international trade instead of the barriers.

(THE END)