

STRICTLY CONFIDENTIAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

DECEMBER 2015 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC5: ECONOMICS

EXAMINER'S REPORT

GENERAL COMMENTS

The paper was fair as it covered a wide range of topics in the syllabus. Well prepared candidates scored good marks. There were of course, candidates who were not well prepared for the examination. Therefore did not do well. These scored very low marks. The following were some observations on the candidates' responses to the questions.

1. It is very unfortunate that some candidates are still not able to express themselves in clear and good English. This has the effect that answers given do not reflect what the candidate had intended to say.
2. Some candidates reproduce memorized answers instead of answering questions according to what is asked. There were several cases where memorizing answers from past papers betrayed such candidates as they would give answers which were wrong. It is recommended that to show understanding of the subject matter, candidates should strive to give an answer correctly
3. A few candidates prefer to write long stories. instead of facts and precise content, which will enable the candidate score better marks.

4. Other candidates have the habit of repeating the questions before giving an answer. This should better be avoided as it is a time waster, and not necessary.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

Part (a) asked the candidates to derive average and marginal costs from the given data. In general, the candidates' performance was not bad. However, some candidates failed to calculate marginal costs and the total cost curve starting from zero. Other candidates did not get the shapes of the curves right. Candidates need to be aware that the MC curve cuts the AC curve at the lowest point of the AC curve. To the left of this point, MC curve lies below AC and falling, while to the right, the MC lies above AC curve.

Part (b) a few candidates failed to draw clearly labelled diagrams showing profit maximizing firms under perfect and monopolistic competition.

QUESTION 2

The question tested the candidates' understanding of the basic key economic concepts and principles. A good number of candidates failed to mention the key words such as "maximum combinations", "produced" and "fixed amount of resources". Candidates should know that this curve or frontier shows the scarcity of resources and impact on output of various commodities and the fact that resources are scarce and therefore, producers have to make a choice of what to produce.

In part (c), candidates were also expected to state that improvement in the rules under which an economy functions such as the legal system,

would also cause the curve to shift rightwards. Better methods of working would mean working harder and giving up current leisure.

In part (e), there were two major issues of concern: candidates failure to distinguish between “resources” and “goods and services”. Some candidates gave one of the questions as “for whom are the resources produced”? The second issue was confusion in the explanation of the questions. For example, several candidates explained the “what to produce” question in relation to resources rather than to consumer demand and willingness to pay. The question “how much to produce” (instead of “how to produce”) was very common.

QUESTION 3

This question was not popular among the candidates. The most common mistake spotted was when candidates stated that when Government levies VAT on salt, producers will increase price of salt. It should be noted that this particular VAT is levied on consumers and not producers (and Government is the beneficiary of this tax).

For part (d), a majority of candidates described factors that would affect the supply of a product rather than the factors that would determine the price elasticity of supply of a product. The two are different.

Candidates displayed lack of understanding of the factors that influence price elasticity of supply and the factors that influence supply.

In part (e) candidates failed to state the difference between consumer surplus and producer surplus.

QUESTION 4

This was the most unpopular question. This was not surprising as many candidates loathe questions that require use of calculators. While some candidates were able to calculate AD and savings correctly, others failed to correctly calculate APC, APS, MPC, MPS and the multiplier. In most cases, candidates swapped the denominator and numerator. The question exposed the candidates' lack of understanding of the basic economic calculations.

QUESTION 5

Candidates were not able to tell the difference between fiscal and monetary policies. Fiscal policy is about taxes and government expenditures while interest rates form part of the monetary policy. Very few candidates knew what supply side economics is, but candidates failed to explain the main objectives of supply side policies.

In part (f), candidates needed to give examples of social and economic costs of unemployment. This would show that they do understand these concepts.

QUESTION 6

Candidates failed to define "foreign exchange rate" and "terms of trade" (TOT). TOT is defined as the ratio of export prices to import prices. This can be interpreted as the amount of import goods an economy can purchase per unit of export goods (or value of country's exports relative to that of imports). Because of not knowing what TOT is, very few candidates were able to state the causes of a decrease in TOT.

Almost all the candidates failed to correctly define Special Drawing Rights (SDR). And, there was a lot of varied and wrong answers for globalization, while the answers to negative effects of globalization also varied.

QUESTION 7

Responses to the factors that contribute to money supply (MS) growth were varied. Some of the explanations were not convincing. It must be noted that Treasury bill auctions drain liquidity from the market rather than increase MS. Some clever candidates included Liquidity Reserve Requirement (LRR) in the explanation. Purchase of foreign currency by the Reserve Bank increases market liquidity.

RECOMMENDATIONS

1. Candidates should be able to understand the key learning outcomes of the topics. They should also cover the whole syllabus adequately.
2. Candidates should thoroughly prepare for examinations. They should endeavour to understand the material before they attempt examinations. They should also try to understand the key basic concepts and principles of economics.

