

**STRICTLY CONFIDENTIAL**

**INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**JUNE 2014 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC5: ECONOMICS**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The candidates' performance on the paper was generally good as slightly over 70% of the candidates have obtained a pass mark.

A good number of candidates scored very high marks, in the eighties, whereas a few candidates also scored very low marks, below 20's thereby giving a very wide range. This shows that the paper was sat by candidates of varying ability levels and preparedness. It was apparent from the answers that some candidates were not fully prepared for the examination. The largest number of candidates obtained scores in the 50s.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**QUESTION 1**

Question one required the candidates to show their understanding of the concept of opportunity cost. The candidates were able to define an opportunity cost. However, a few were unable to calculate it. Additionally, they failed to differentiate allocative efficiency from productive efficiency as was required by part (c) of the question. This is where they lost a lot of marks. These candidates, therefore, failed to obtain marks above ten (10) in this question.

This was a standard and basic economics question that required candidates to demonstrate their understanding of the concept of opportunity cost. The question was fairly balanced since it required the candidates to provide explanations as well as calculations. The general performance on this question was poor.

## **QUESTION 2**

This question required the candidates to show their understanding of different types of business enterprises and the factors that may lead to their growth. This was also a good question for candidates doing business related subjects such as accounting.

In part (a) the candidates were asked to state the main characteristic which makes a partnership different from a limited company. Most students ably handled this part. In part (d) of the question many candidates were unable to explain the difference between vertical integration and horizontal integration. Candidates also failed to define the term “economies of scope”.

## **QUESTION 3**

Question 3 was a standard economics question that required the candidates to apply production theory to find the optimal level of output to be produced. Many candidates did not have problems in calculating average revenue, total revenue and marginal revenue as was required by part (a) of the question. They, however, failed to competently, handle part (d) of the question which required them to state any four characteristics of an oligopolistic market. The candidates general performance on the question was, however, generally, satisfactory.

## **QUESTION 4**

This question required the candidates to apply the knowledge of market failure. Part (a) of the question required the candidates to define market failure. A good number of candidates were able to define it. They were also able to mention three factors that would lead to market failure as demanded by part (b) of the question. They also easily tackled part (d) of the question which required them to explain three ways in which a government might choose to regulate markets. Most candidates, however, had problems in explaining how time lags may bring about market imperfection as demanded by part (c)(ii) of the question.

### **QUESTION 5**

Question 5 was a practical question in that it asked the candidates to demonstrate their understanding of the circular flow of income and to calculate the Gross Domestic Product (GDP) of a country. Many candidates failed to name the sectors as required by part (a) of the question. They were also unable to name the flows as required by part (b) of the question. In part (f) very few candidates managed to state the five assumptions of a basic circular flow of income model. However, they were able to calculate GDP using the injections-leakages approach.

Very few candidates attempted the question and for those who attempted it, the performance was poor. However, the question was very relevant, as it required the candidates to demonstrate their understanding of various macroeconomics issues.

### **QUESTION 6**

This question required the candidates to demonstrate their understanding of GDP, approaches in calculating GDP, weaknesses of using national income per capita as a guide to comparing the standard of living in different countries.

Many candidates failed to define GDP. They were also unable to calculate it using the income approach and the expenditure approach. Consequently, the result they got using the income approach differed from the one they got using the expenditures approach which should not be the case. However, candidates demonstrated their understanding of the weaknesses of using national income per capita as a guide to comparing the standard of living in different countries. All in all, the candidates' performance on this question was average.

### **QUESTION 7**

Question 7 was a standard macroeconomic question which required the candidates to demonstrate their knowledge of public finance. It also required the candidates to demonstrate their understanding of the budget deficit, types of taxes used in Malawi, and investment. This question proved to be easy as most candidates attempted it and scored highly.

## **QUESTION 8**

This question required the candidates to demonstrate their understanding of investment and its relationship with the business cycle. Most candidates were able to explain the meaning of investment and they mentioned the factors that influence the volume of investment, as was required by parts (a) and (b), respectively. In part (c) the candidates were able to explain the points on the business cycle. They were also able to state five characteristics of recession as required by part (c)(ii) of the question. Many candidates attempted it and their performance was very good.

## **QUESTION 9**

This question required the candidates to demonstrate their understanding of international trade related concepts such as protectionism and market liberalization with special focus on the passenger transport industry in Malawi. Students were able to define the term market liberalization, and were also able to state three advantages of market liberalization as required by parts (a) and (b) of the question, respectively. Also, they were able to state the advantages of protectionism as required by part (e) of the question. However, they found part (d) of the question difficult as they failed to explain how John Maynard Keynes would react to an argument that bus fares in most urban centres would go down due to market liberalization.

Though a balanced question, it proved somewhat difficult to candidates as few attempted it. Even the few who attempted it scored marks below 10.

All in all, the candidates' performance on the June 2014 Economics (TC5) examination was encouraging.

