

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**JUNE 2016 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC5: ECONOMICS**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The candidates' performance, in general, has been extremely poor as only 35% have passed the examination. This is not a good pass rate by all standards, because the failure rate is higher than the pass rate. A quick analysis of why there has been a substantial failure rate reveals that, even though the paper was fair and appropriate for the Technician level, however, a thing which caught many candidates off balance was the way questions were asked. Candidates have tended to memorize questions, which were repeatedly asked each semester. This time round, instead of the usual 'head to tail' type of questions, it was 'tail to head' or 'middle to head' or 'middle to tail' type of questions. The candidates' answers also gave the impression that many candidates did not cover the syllabus fully.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**QUESTION ONE**

The question required the candidates to show their understanding of the fundamental resource allocation and types of economic systems.

Many candidates were able to answer correctly part (a) of the question, but failed to do the same in the follow up question in part (b). There was confusion between resource "allocation" and "ownership". As a result, candidates gave planned/free market systems as ways in which resources are owned.

This type of question has appeared in earlier examinations. However, this time, the Examiner changed the style. Candidates who rely on memorizing past papers failed to realize that the question had been asked before.

## **QUESTION TWO**

This question required the candidates to show and apply their knowledge of the demand theory. Part (a) required the candidates to calculate the equilibrium price and quantity. Many candidates who attempted this question got it right.

In part (b) the candidates were also able to explain the law of demand. However, a few did not understand the word “defies”, As such, they gave contradictory answers, that as prices went up, demand also went up, which is not correct/true.

In part (e) the candidates failed to explain the limitations of the marginal productivity theory.

## **QUESTION THREE**

This was a standard economics question that required the candidates to demonstrate their understanding of the theory of the firm.

In part (b) many candidates explained how firms grow instead of “why” firms grow.

In part (d) it is not a guarantee that small firms have low costs or that horizontal integration results in low cost or improved products.

In part (e) some candidates mentioned the ability to enjoy economies of scale as one advantage of small firms. Such candidates did not understand the meaning of the term “scale”.

## **QUESTION FOUR**

This question required the candidates to show their understanding of economic growth using aggregate demand and supply analysis. Very few candidates attempted the question. The candidates were unable to explain the terms “economic growth” and “aggregate expenditure” in parts (a) and (b).

In part (c) the candidates were not able to show, with the aid of a clearly labelled graph, what would happen in the economy when both aggregate demand and aggregate supply increased. Candidates also lost marks because the quality of their graphs was poor.

Many candidates also defined “unemployment” instead of “unemployment rate” They did not know the meaning of “rate”.

### **QUESTION FIVE**

The question was a practical question in that it asked the candidates to demonstrate their knowledge of business cycle, unemployment and inflation. Candidates were able to define a business cycle, and they also explained the phases of the business cycle. However, some candidates did not approach the business cycle along the lines of the economy, instead they talked about how firms operate or trade. Others failed to differentiate the phases, hence, thought that “recession” and “depression” meant the same. The main problem was that candidates failed to explain how an increase in the wages caused by the action of the labour unions could lead to cost-push inflation. Furthermore, they failed to show the cost-push inflation.

Generally, the entire question required candidates to show their understanding of inflation, which is one of the very important macroeconomic issues.

### **QUESTION SIX**

This question required the candidates to demonstrate and apply their understanding of concepts in international trade.

In Part (a) the question required candidates to distinguish between comparative advantage and absolute advantage. Many candidates failed to distinguish the two, although the concepts are widely used in international trade.

In part (b) the candidates were not able to calculate the opportunity costs facing each country mentioned in the production of each product. However, in was part (c) of the question that required the candidates to define “terms of trade”, very few got this part right. Terms of trade is defined as the ratio of export prices to import prices. It can be interpreted as the amount of import

goods an economy can purchase per unit of export goods, or the value of a country's export relative to that of imports.

Things got worse in part (d), which required the candidates to explain the limits to terms of trade. Most candidates failed to explain

### **QUESTION SEVEN**

This was a standard macroeconomics question which required the candidates to demonstrate their knowledge of money and banking. It required the candidates to separate between the components of  $M_1$  and  $M_2$ . Candidates failed to distinguish between liquid or narrow money and broad money. The candidates did not understand the meaning of "time deposits" and "term deposits".

Part (d) of the question required the candidates to explain the characteristics of money. Many candidates got it right.

### **RECOMMENDATIONS**

1. Candidates should present their answers in correct English. A good number of candidates lost valuable marks because their explanations lacked clarity due to poor English.
2. Candidates should learn to understand the economic concepts, principles and techniques, to help them apply, comprehend and analyse when answering questions.
3. Candidates are encouraged to study the syllabus adequately. Past question papers should **only** be used for revision and practicing, but not for memorising.
4. Candidates should anticipate questions that require the knowledge of Mathematics, therefore, should be prepared for questions involving calculations.
5. Where a question demands the drawing of graphs, these should be done neatly for easy interpretation.

6. Candidates should cover the whole syllabus, before sitting for the examination.
7. These factors may have contributed to many not doing well.

