

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Introduction to Economics and Finance	Foundation Examination – Spring 2014

**General**

Though the questions were quite in line with the previous attempts, the overall performance was quite poor. There were students who just did the MCQ's and did not attempt any other question. Some students attempted extra questions which is a waste of time as extra questions are not marked.

It is imperative that candidates read the questions carefully before they attempt them. A fairly large number of the examinees simply reproduced rote learned material to questions which appeared similar to question of past papers, providing lengthy explanations and detailed diagrams but omitting what the question specifically asked for.

Question-wise comments are as under:

**Question 1**

The performance in this question consisting of 15 MCQs was average, as most of the students secured 8-10 marks. The common errors were as follows:

- In sub-part (ii), option 'b' was selected.
- In sub-part (iv), options 'b' and 'c' were selected.
- Sub-part (vii) was one of the worst attempted as only about 30% identified the correct option which was 'a'.
- In sub-part (ix), option 'b' was selected.
- Sub-part (xii) was quite easy but the students seemed too confused as each option was almost equally selected.
- Part (xv) was attempted poorly as only about 40% of the students could select the correct answer.

Some students copied the questions which is a waste of time. It is sufficient to simply put down the correct alphabet against each sub-part number.

**Question 2**

This was one of the most low scoring question. Though the students were able to define the term consumer surplus correctly but only few were able to identify the difficulties that are involved in the measurement of the consumer surplus. Many candidates confused the difficulties with the factors affecting demand and elasticity of demand.

It must be noted that examples may be used to support an answer but are not the answer itself. Therefore, correct examples with incorrect definitions received no marks. Furthermore, when the question itself asked for simply a definition there was not much point drawing diagrams and giving detailed explanations. The time spent on this could easily have been used to attempt the other questions in a better way.

**Question 3 (a)**

This part of the question required explanation of Marginal Productivity Theory. More than 70% of the students were able to explain it correctly with the help of a table or diagram. Those who performed poorly, mostly confused it with the theory of diminishing marginal utility. Some students wasted a lot of time in explaining the assumptions, which was not needed. Many candidates produced the relationship between Average, Marginal and Total Product, which was not required at all.

**Question 3 (b)**

This part required brief explanation of the grounds of criticism against the Marginal Productivity Theory. Many candidates seemed confused and wrote the assumptions thereof.

**Question 4**

The requirement here was to define the term 'division of labour' and describe four of its advantages and disadvantages. Most of the students wrote the definition and the advantages correctly but messed up the disadvantages. Furthermore, quite often the points were repeated to reach the total of four. Such repetition does not give any advantage and should be avoided.

**Question 5 (a)**

The requirement was to explain the state of disequilibrium in a market through a diagram and to explain how forces of demand/supply help to achieve equilibrium. About two-third of the students were able to explain the concept correctly but many among them could not draw the diagram correctly. Further, very few could appropriately label the diagram. The erring students mostly confused it with the concept of change in demand and supply. Many candidates discussed maximum and minimum price which was entirely irrelevant. Some candidates drew diagrams of change in equilibrium points instead of discussing how the market moves towards the equilibrium point.

**Question 5(b)**

This was the easiest of questions and most of the candidates secured high marks.

**Question 6 (a)**

In this question simple data was given from which the candidates were required to determine the GDP under three different approaches. About one third of the candidates calculated the GDP correctly and ended up securing full marks. The rest seemed to be guessing. Most of them ended up with a different figure under each approach and did not bother to offer any comments or explanation thereof.

**Question 6 (b)**

This was another very easy question. Almost all the students had good knowledge of the uses of National Income and secured good marks.

**Question 7**

This was the least attempted question probably because the topic of capital markets had been tested in detail, after a long time. Performance in each part is discussed below:

**Question 7 (a)**

This part required the definition of the term 'Capital Market'. While most had some idea if not enough, to give a perfect definition, some students got confused and gave the definition of capital goods instead of capital market.

**Question 7 (b)**

Majority of the candidates described the functioning of a stock exchange instead of specifying its role in the functioning of a country's economy. Some candidates discussed the role of commodity markets.

**Question 7 (c)**

Most of the candidates could identify only two factors responsible for fluctuation in the share price of a company i.e. profits and dividend. Other factors were mentioned by few only.

**Question 8**

Fiscal policy was well defined by the majority but many students drew diagrams which were not required. Majority of the candidates were of the opinion that government can only restrict unemployment through increases in the public expenditure and reduction in the taxes. Other possible steps were rarely mentioned.

**Question 9**

It was a simple and straightforward question based on two easy topics i.e. process of credit creation and the concept of credit multiplier. However, somehow the candidates were unable to perform well and only about 10% of the candidates secured passing marks. Many students misinterpreted the concept of a credit multiplier with that of an investment multiplier.

**Question 10**

The requirement was to describe how economic growth is measured and the factors that stimulate economic growth. The one key point missed out by majority of the students was that economic growth is measured by an increase in the real GDP over time and not on the basis of increase in nominal GDP. Moreover, many students wasted time in drawing diagrams which were not required. Factors conducive to economic growth were generally well explained.

**Question 11 (a)**

This was again an easy question where the candidates were required to briefly discuss four unfavourable effects of inflation. Only about 25% of the students were able to identify four factors as in most cases loss of purchasing power and increase in unemployment were discussed. Many students tried to reach the total of 4 points by repeating the same point in different ways. It has been mentioned time and again that such tactics are just a waste of time and do not earn any additional marks.

**Question 11 (b)**

Majority of the students correctly described the concept of inflationary gap and produced appropriate diagrams. However, labeling of the diagram seemed to be an issue in many cases.

**(THE END)**