

INTRODUCTION TO ECONOMICS AND FINANCE

General:

The overall performance of the candidates was average as most of the questions were relatively easy and straightforward.

Question-wise comments are given hereunder:

Q.1 It was an easy question on consumer equilibrium using indifference curves. Many candidates secured more than 70% marks.

The common errors were as follows:

- Some candidate elaborated the concept of income and substitution effect which was not required.
- Some candidates started describing the diagram without explaining as to when a consumer is in equilibrium.
- Many candidates failed to draw proper 'Budget Line' i.e. it was not tangent to any of the indifference curves at any point.
- Some who drew proper Budget Line and indifference curves, could not properly explain as to why the maximum level of satisfaction is achievable at the point where the line is tangent to the indifference curve.

Q.2 This question proved to be an easy one for most of the candidates as they correctly identified the main features of a monopoly set up, such as, sole supplier, blocked entry, price maker and non availability of a substitute.

Q.3 This question was probably the easiest and related to the topic of determinants of supply. Many students secured good marks by explaining the determinants such as price, seasonal effects, technological progress, input prices, government policy, agreement among producers and price expectation etc. However, quite a good number of students confused it with the determinants of demand such as income, taste & fashion etc.

Q.4 Majority of the students correctly identified customer's satisfaction, staff satisfaction, quick decision making and low fixed costs as the merits of small scale production.

Q.5 This question involved the following steps:

1. Brief definition and description of the multiplier effect with the help of an example and the related formula using the concept of Marginal Propensity to consume.
2. Formation of a table showing how an increase in investment converts into an even bigger change in the national income.

The overall performance of the candidates in this question was not upto the mark

- Q.6 Only few candidates were able to correctly identify the factors that determine the reserve price in a competitive market such as nature of product, future price and cost, liquidity preferences and market conditions. Majority of the students misunderstood the question and described the characteristics of a competitive firm which was not required at all.
- Q.7 About sixty five percent of the students were able to identify the role of the state in a mixed economy such as provision of public and merit goods, control of economy, redistribution of income and price controls. However the examples in many cases were not very appropriate.
- Q.8 In this question the overall performance of the students was below average. Instead of using Marginal revenue approach to describe how a firm uses price discrimination to increase its profits most examinees ended up using demand supply diagram and failed to explain the requirement of the question. Quite a good number of students unnecessarily outlined the conditions that are required for exercising the price discrimination in the monopoly set up. Surprisingly, many students repeated the explanation of the term price determination which had already been provided in the question. They must realize that such actions only result in loss of their valuable time and they cannot gain any advantage by writing irrelevant material.
- Q.9 This proved to be a relatively easy one for the candidates as most of them correctly defined the major components of the current account and also identified domestic deflation, devaluation and import restriction as the main ways to overcome a current account deficit.
- Q.10 Many students secured full marks in this question as they properly explained the concept of progressive tax and also identified the merits of progressive tax such as equity, elasticity, certainty etc.
- Q.11 Most students secured good marks in this question also as they correctly described real interest rate as the difference between nominal interest and the expected rate of inflation and correctly identified uncertainty, balance of payment, monetary policy and liquidity preference as the main determinants of general rate of interest.
- Q.12 In this question majority of the candidates performed well and correctly identified the difficulties with which authorities might come across while calculating the national income such as existence of black economy, non monetized services, unavailability of data, unavailability of trained staff etc.
- Q.13 About 45 percent students did not attempt this question. Those who did attempt only explained a single point i.e. reduction of trade barriers, as the main objective of WTO. They missed out the other essential points such as fair treatment of LDCs, discouragement of subsidies and dumping, equal treatment to locally produced and imported goods etc.