



Actuarial Society of South Africa

EXAMINATION

October 2023

Subject N211 — Communications

EXAMINERS' REPORT

This subject report has been written with the aim of helping candidates. This report summarises the main points that the examiners were looking for and some common problems encountered.

General Examiner’s comments

Students generally performed better in this examination than in previous sittings. There were less technical calculations, and this seemed to help students substantially.

Students also tended to make less simple grammatical and spelling mistakes in this session and therefore seem to have used the general tools available in Word and PowerPoint better. The examiners hope this trend continues.

Question 1 tended to separate the marginal candidates between those who passed and those who did not.

Question 1

The question required the candidates to draft an email reply to their grandmother who posed a few questions about and held some incorrect views of inflation. To perform well in answering the question, candidates had to deal with four main topics:

1. granny’s incorrect view of the cause and government’s control of inflation,
2. granny’s personal inflation rate relating to four food items,
3. why her inflation was different to a general consumer price inflation rate, and
4. the link between inflation, the reserve bank’s mandate to manage inflation and the interest granny earns on an investment.

Candidates that did well overall in the question understood and could explain that inflation is a measure of the increase in the prices of goods and services and was not the cause of the increase in prices. Candidates who did not understand this fundamental concept battled with the question. Some candidates included current topical information including the recent avian flu which assisted their explanation.

The calculation of personal inflation based on the four food items was where most candidates secured most of the marks available. Candidates lost marks where their tables of the data provided, and their calculations were incomplete. Most commonly

- missing or unclear headings,
- missing data points on individual food items,
- not totalling the basket of food items, and
- not determining an overall personal inflation rate.

Several candidates who calculated the overall personal inflation rate did so incorrectly by averaging the inflation rate of each food item.

Most candidates could explain that the consumer price inflation rate is determined on a basket of broadly consumed goods and services and that these will differ to goods and services that granny buys. Candidates, however, failed to follow through and draw the conclusion that:

- different people experience different inflation, and
- that the general consumer price inflation rate of 8% is correct but not what any individual person is expected to experience.

The weakest part of candidates’ attempts in general was the section on interest rates and the role of the reserve bank in managing inflation. Clues were provided in the question of who and how inflation is managed, but many candidates could not apply this information to provide a satisfactory explanation. Where candidates did explain increasing interest rates to manage high inflation, they often failed to consider the opposite, of falling interest rates when inflation was low and under control. The latter was of particular interest to granny as she was concerned about when lower interest rates would reduce her income.

Some candidates lost unnecessary word count and format marks. It clearly stipulated in the instructions that graphs and tables, if inserted, needed to be counted manually and added to the automatic word count. Words and numbers must be counted. Their inclusion needs to be checked through highlighting to ensure the correct word count. The format mark includes spacing. Single spacing with 0/0 (not multiple 0/8) is recommended in all Word questions.

The tone should be familiar and friendly, especially during the salutation, introductory/ concluding sections and close as this is an email to a grandmother. The middle section

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could be more professional in style, given her questions and misunderstandings. Headings, particularly question headings, added an interactive quality. Candidates who avoided jargon and supplied easy-to-follow; everyday examples scored the most marks communicatively. Some candidates were much too technical in their replies using terms that granny was unlikely to understand or care about e.g., ‘monetary policy’. Tone was an important consideration especially for marginal candidates.

Question 1 - Draft Solution

From: PJ Heart <ironheart2000@gmail.com>

Tue 22/08/2023 10:32

To: Pat Heart <pat&joe@webmail.com>

Cc:

Subject: Re: Photo of your dad

Dear Granny

Thanks for the photo! I'll be sure to tease Dad about his hilarious haircut.

I understand your concern about the rising cost of food. It's true that prices are going up, and it's especially tough on people on a fixed income like you.

What causes inflation?

Inflation is not caused by the government, nor does it cause prices to go up. It's just a measurement of how prices of goods and services changed over a period. Inflation is caused by several factors. Some of these are:

- increasing salaries paid,
- increased demand by consumers for goods and services which means suppliers can charge more, and
- shortages of the supply of raw materials that go into producing goods which means producers must pay more for their raw materials.

The government can influence inflation indirectly through their policies, but it can't control it directly or stop it. So, government can't stop inflation. Your pension increase is given because of inflation, so if there was no inflation you wouldn't get an increase in your pension.

Is the 8% consumer price inflation rate correct?

You're right to wonder about the accuracy of the 8% quoted for consumer price inflation. That number is calculated by tracking the prices of a basket of goods and services commonly purchased by households. The food items you mentioned may or may not be included and the basket used for the calculation will also include items that you don't purchase. So, your inflation experience is expected to be different to the official figure.

Consider the items you mentioned:

Item	Price Last Year	Price This year	Percentage increase
bread	R14	R15	7%
milk	R22	R30	36%
chicken	R40	R70	75%
rice	R25	R35	40%
TOTAL	R101	R150	49%

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From these prices we can see that chicken has become much more expensive in the last year with a price increase much higher than the official consumer inflation rate. Bread on the other hand has increased by less than the consumer inflation rate.

So, just as inflation is different for different food items, the inflation experienced by different people is different depending on what they spend their money on. On this basket of four items the inflation rate has been 49%. Comparing this to the 5% increase in your pension makes it clear why you are feeling the pinch.

Why is the interest you are earning increasing?

You might wonder, if the government isn’t responsible for managing inflation, then who is? The Reserve Bank is set a mandate by the constitution to manage inflation within a band of 3% to 6%. One of the tools that the reserve bank uses to meet this objective, is the interest rate charged to banks. So, if they increase interest rates, it becomes more expensive for people to borrow money and buy items on credit. This reduces the consumer demand for goods and services and therefore suppliers can’t increase their prices by as much as they wish. Just as increased demand leads to increasing prices and higher inflation, reduced demand should lead to lower inflation.

So, the Reserve Bank's efforts to control inflation by increasing interest rates and banks wanting to attract savings means that the banks pass these higher interest rates onto you. When the Reserve Bank feels that inflation is within the target band, it may start reducing interest rates and your bank will do the same on your investment.

While these explanations are cold comfort for your inflation experience, hopefully you find some helpful insights. If you want to chat further, let me know.

Looking forward to seeing you soon!

Love

Peanut

[597 words]

Question 2

This question required candidates to draft a presentation of eight to ten slides to the *Citizens for Truth* organisation on possible reasons for the difference in findings of the Swenorland Happiness Index (HI) and a recent young adults’ survey (YAS). Candidates were supplied with the first three slides of presentation and were instructed to revise these to ensure appropriate subject matter, content, and order.

Candidates were expected to create an author for the presentation and any designation that was appropriate to the question context was accepted. Better candidates separated and simplified the information on the *Topics to be covered* slide and ensured alignment with individual slide headings.


The most important point to clarify in the answer was that the HI is a well-established and -conducted United Nations survey with a ten-year track record, while the YAS only covered 100 city-dwelling Swenoree adults aged 18 to 30. The YAS could not be expected to be representative of all young adults because of its small survey size and the exclusion of those in rural areas. However, the results of YAS did point to potential concerns about mental health and unemployment in this age group as these were higher than in other age groups. Poorer students implied (or stated outright) that the results of the YAS were a better gauge of population happiness than the HI, despite young adults comprising less than 5% of the Swenoree population.

Question content lent itself to the creation of at least one comparative graph or table. These types of graphics help break up text for the audience and often convey information better than a series of bullets.

Most candidates mentioned the potential influence of questionnaire content and design on survey results, but few mentioned that the surveys could have gathered data at different times. This could have an impact on outcomes given the long winters and rising trend of substance abuse and inequality.

Given the range of 8-10 slides and the amount of information in the question, it is recommended that candidates use the maximum number of slides to prevent overloading. As audience members may not fully understand the purpose of the presentation, it’s important to supply an introductory or background slide for context and a final summary or conclusion slide.

Question 2 - Draft Solution

	<p>ARE ALL <u>SWENOREES</u> EQUALLY HAPPY? HAPPINESS INDEX RESULTS DIFFER FROM YOUNG ADULT SURVEY</p> <p>To: Citizens for Truth members By: Anna Smyte Actuary, <u>TrustUs</u> Statistical Consultancy</p> <p>23 October 2023</p>
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	<h2>Topics to be covered</h2>
	<ul style="list-style-type: none">• Introduction• Happiness Index design• Swenorland Happiness Index results• Recent young adults’ survey<ul style="list-style-type: none">• Population• Results• Other potential influencers of results
	<p>2</p>

Introduction

- The 2023 World Happiness Index has named Swenorland citizens the happiest in the world
 - They’ve won the vote for 7 years in a row!
- BUT
- Youngsters surveyed in the country seem to disagree
- Why?
- Comparing the designs of the two surveys may answer that question....

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Happiness Index Design

- UN Index
 - Well-designed and -conducted
 - Representative of total Swenorland population
 - 10 year+ track record
- Components:
 -  GDP
 -  Life Expectancy
 -  Environment
 -  Social Security
 -  Freedom
 -  No Corruption
- 156 participant countries

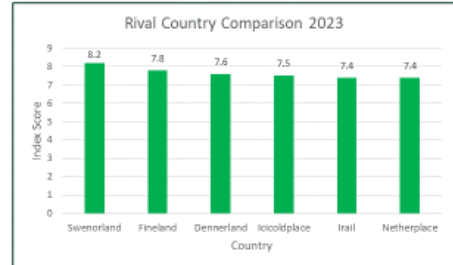
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Swenorland Happiness Index results

Happiest country in the world: 2017 – 2023

- Top 3 in world: 2014-2023
- Consistently in top 10 components of:
 - GDP
 - Absence of corruption
 - Personal freedom
- Other positive Swenorland characteristics:
 - Pristine environment
 - High levels of institutional trust
 - Free healthcare
 - Generous unemployment benefits

Countries in top 3 over last decade



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Recent young adults’ survey: population

- Recent 2023 survey
- Surveyed population
 - 18 to 30 years only - not all age groups
 - City dwellers - not rural dwellers
 - 100 interviewees – possibly not representative of population modelled

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Recent young adults’ survey: results

Results significantly different from UN Happiness Index

- Differences in populations surveyed → different results
- 27% of young adults self-defined as struggling/suffering in life (< 5% of Swenorland total population)

	Young adults (18% of population)	Total population
Depressed in last year	± 1 in 5	± 1 in 13
Suicide and unemployment rates	Highest in this age band	Average across age bands
Social media use	Impact uncertain	Average across age bands

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Other potential influencers of results

- Questionnaire content
 - eg likely exclusion of GDP as happiness indicator for young adult survey
- Questionnaire design: word usage makes a difference
- Sundry possible differences
 - Period of data gathering inconsistent
 - Different perspective in winter than summer
 - Substance abuse and inequality rising
 - Samples not representative of populations studied (country versus young adult)
 - Errors in analysis and/or reporting

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Summary

- Swenorland = happiest country by UN Happiness Index (2014-2023)
- Recent survey differs from UN 2023 survey
 - Different questionnaires by design and content eg what measured
 - Young, city-dwelling adults surveyed
 - ➔ Differ to UN survey population by domicile and age
 - Over a quarter of young adults struggling/suffering
 - ➔ Unexpectedly large percentage self-identify as unhappy
 - Why?
Reasons include depression and unemployment
 - Uncertainty on similarity of:
 - Survey periods
 - Methods of analysis and reporting
- Difference in findings probable

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Any questions?

Useful sources:

UN_HI2023@UN.org

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Contact details:

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Thank you

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