PROS & CONS

To score exam marks we have to write something, even if we are stuck. Tables that list advantages and disadvantages are a great way to get unstuck, explains Doug Williamson

The easy marks

Your exam markers apply two important principles:

1. To score full marks, you *must* answer every part of each requirement.
2. There is credit available for every sub-part, however easy it is.

The easiest marks available for each part are usually the first ones. So our answer plans need to (a) identify all the separate parts and (b) give us a framework for answering each of the sub-parts.

Let's look at an example from the April 2013 exams.

Exam question

A recent survey investigated the popularity of different project appraisal techniques in current use. One difference was the method of identifying an appropriate tax rate for the shelter of debt.

The effective tax rate was used by 64% of respondents. Marginal tax rate was used by 29%, and 7% used a target rate.

Required:
What are the pros and cons of using the effective tax rate versus the marginal tax rate? Define 'effective' and 'marginal' tax rates.

(2.5 marks)
MCT General Exam, April 2013, Q1(d)

Where do I start?

Feeling we know too little about the topic is obviously a problem. We might give up and miss the easy marks on offer. Knowing too much can also be a problem. We might write for too long and overrun our time allocation, missing the easy marks on later questions.

However little – or however much – we know about the topic generally, we need to answer the precise question asked. In either case, a table is a great structure for an answer plan.

The first sentence in this question requirement includes both (i) 'pros and cons' and (ii) 'effective tax rate versus marginal tax rate'. This strongly suggests a 2 x 2 planning grid of some kind. If we jot down 'pros' and 'cons' as column headings initially, we have:

	Pros	Cons
ETR		
Marginal tax rate on debt		

(It's absolutely fine to use well-known abbreviations – such as 'ETR' above – in your answers.)

Even if the question doesn't expressly mention pros and cons, they are a great structure to start thinking about almost any question (see Darwin's Top Tips on page 45).

Turning back to this particular question, we can't read our specific requirement too often or too carefully. So let's look at this requirement again.

We've missed something – the second sentence in the requirement: "Define 'effective' and 'marginal' tax rates." It's more logical to offer our definitions first, so now we have three sub-parts (definition, pros and cons) to answer about both ETR and the marginal tax rate.

It's usually easier to have fewer columns, and more rows if we need them. So, turning our table around, add one more row. We now have 'ETR' and 'marginal tax rate' as column headings, and the definition, pros

and cons, as row labels. Make sure there's plenty of space to fill in the blank cells later.

Two times table

	ETR	Marginal tax rate on debt
Definition		
Pros		
Cons		

This table structure has many important benefits:
(1) We're now very clear that there are six sub-parts to answer (2 x 3 = 6).
(2) We have a check box to ensure we answer all six.
(3) The sub-parts are in a logical and familiar order.
(4) There's less temptation to write other things that aren't asked.
(5) In longer questions, if the pros and cons are the kinds of things that net off readily, like money amounts, this structure can easily extend into further analysis, like net benefit/(cost) or recommendation.
(6) Depending on the length of the question, we might simply fill in the table as our final answer, so we don't need to write very many additional words. The logical flow and context has already been set by our table structure.

Answering within the planning table

This example question is a short one. The allocation of 2.5 marks implies around four minutes of answering time. So, in this case, we can produce our final answer simply by completing the empty cells in our table, as follows:
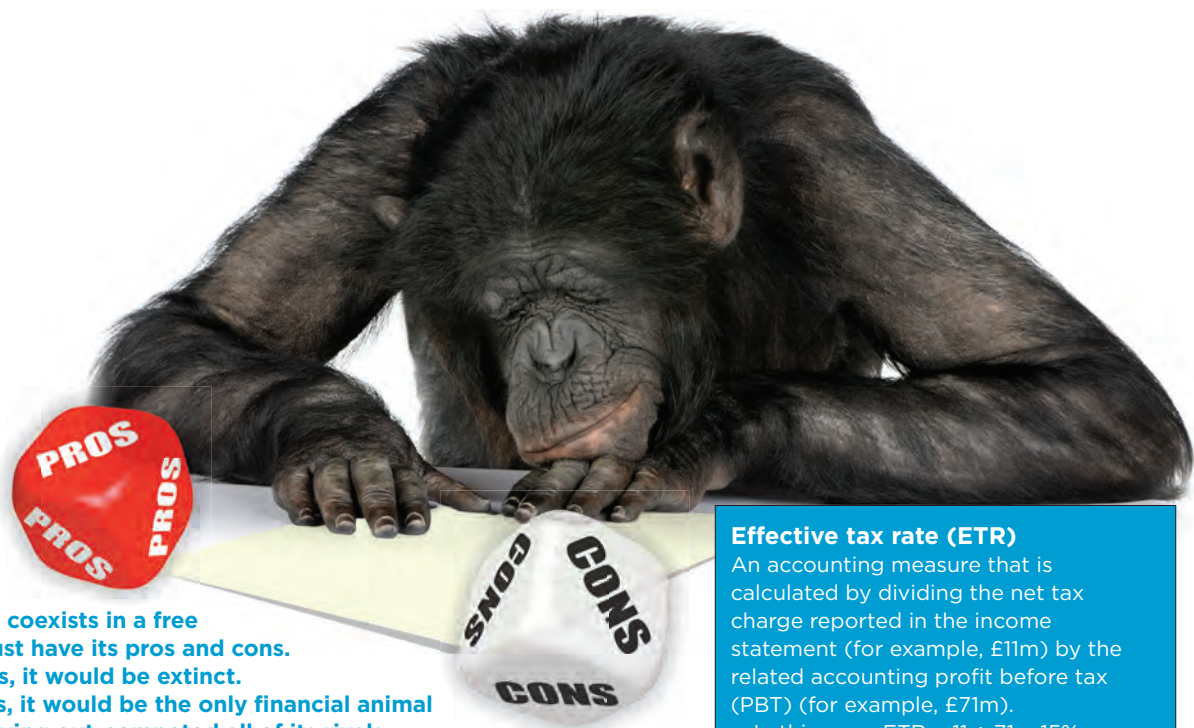
DARWIN'S TOP TIPS

1. Every animal that coexists in a free financial market must have its pros and cons.
2. If it only had cons, it would be extinct.
3. If it only had pros, it would be the only financial animal left in the world, having out-competed all of its rivals.
4. Any financial beast in an exam question must have its pros and cons, too.
5. So it's a very safe bet to write about pros and cons in your exam answers.

	ETR	Marginal tax rate on debt
Definition	Accounts tax charge ÷ PBT	Average tax rate on debt
Pros	Easy to calculate	Technically correct
Cons	Technically wrong	Usually more complex to calculate

Did you have enough space to write your answers within the table? Big tables are easier.

Notice how few words we need, using this table structure, to make our meaning entirely clear – about 20 additional words. This concise response would certainly have scored a pass out of 2.5 marks.

"Haven't I already said that?"
Candidates sometimes worry that they may be making statements that are too obvious to be credited. For example, we've said that ETR is easy to calculate, but technically wrong, for project appraisal purposes. Do we still need to go on to make the two comments to the right: that the marginal tax rate is technically correct, but usually more complex to calculate?

The answer is: "Normally say it, but concisely." Especially if we are expressly asked for pros and cons in the question, as in this case. If we're not asked expressly in the question, and we are short of time, make a very brief statement to the same effect, such as "and similarly" or "and vice versa".

The reason for writing something in all cases is that points that are obvious to you

and me may not be at all obvious to all the other exam candidates. So we need to differentiate our exam script from all of their scripts.

Expanding our answers for more marks
If we still have time and have more relevant points to make, we should continue writing until the end of our time allocation. For example, in this question, we can expand on our initial comments – using the same table structure – as follows:

The response below would have earned the full 2.5 marks for this short question.

If we're answering a longer question for more marks, we will expand the type of comments below with much more detail. But our table below will still be an excellent plan for our longer-form full narrative answers.

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	ETR	Marginal tax rate on debt
Definition	Accounts tax charge ÷ PBT	Weighted average tax relief rate on debt servicing costs
Pros	Easy to calculate from accounts	Technically correct
Cons	Technically wrong because: (1) Applies to equity, not to debt (2) Potentially distorted by different deferred tax accounting practices	Usually more complex to calculate, especially in multinationals