

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATION

**L1.5: ECONOMICS AND THE BUSINESS
ENVIRONMENT**

FRIDAY 7 DECEMBER 2012

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven** questions and only **five** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings

Attempt any five questions

QUESTION ONE

- a) Explain the law of demand using a diagram and state the exceptions to this law
(6.marks)
 - b) Discuss using a diagram the concept of consumer surplus
(4.Marks)
 - c) Discuss **three** factors that affect supply elasticity
(6 Marks)
 - d) Using a diagram, explain the effect of a tax on the price of a good.
(4 Marks)
- (Total 20 Marks)

QUESTION TWO

Write short notes on the following:

- a Law of variable Proportions (4 Marks)
 - b Production factors (4 Marks)
 - c Free Market Economy (4.marks)
 - d Discuss using a clearly labeled diagram the relationship between Total Product, marginal product and average product of labour
(8 marks)
- (Total 20 Marks)

QUESTION THREE

- a) What do you understand by the term “Budget deficit”? Most developing countries experience huge budget deficits. Explain some of the main causes of such deficits.
(10 marks)
 - b) Discuss **five** major methods that can be used by these countries to finance such budget deficits.
(5marks)
 - c) List **five** characteristics of the less developed countries.
(5marks)
- (Total 20 Marks)

QUESTION FOUR

- a) Public finance refers to that branch of Economic theory that studies public revenue and public expenditures. With reference to public finance, discuss the **four** main functions of the government. (8marks)
- b) Discuss any **six** reasons why the governments levy taxes. (6marks)
- c) What are Fiscal policies? Discuss the various instruments of fiscal policies that can be used by the government in its efforts to stabilize the economy and achieve desirable employment levels. (6marks)
- (Total 20 marks)**

QUESTION FIVE

- a) Give a general meaning of international trade. (5 marks)
- b) In the context of international trade, explain the concept of comparative advantage with specialization. (5marks)
- c) Define and briefly explain Balance of Payments (BOP). (5 marks)
- d) What benefits can be derived from engaging in international trade. (5marks)
- (Total 20 marks)**

QUESTION SIX

- a) Discuss free Market economy highlighting its advantages and disadvantages to consumers and producers. (5 marks)
- b) State and briefly explain the factors that may cause a fall in the supply of a good in the market. (5 marks)
- c) The table below shows the demand and supply schedules for rice in Kimironko market in June 2012.

Price (Frw Per Kg.)	Demand (Kg)	Supply (Kg.)
10	100	20
20	85	36
30	70	53
40	55	70
50	40	87
60	25	103
70	10	120

Required:

- i) Plot the demand and supply curves and determine the equilibrium price and quantity
(3marks)
- ii) Determine the shortage of Rice at price 20Frw
(1 mark)
- iii) Determine the surplus of Rice in the market when the price was 60Frw
(3 marks)
- d) Given the demand and supply functions:
 $AD=36-4P$
 $AS=12+12P$
Calculate the equilibrium quantity and Price.
(3 marks)
(Total 20 marks)

QUESTION SEVEN

- a) What is the meaning of the term “Price Control”
(4 marks)
- b) List two products in Rwanda which are subject to price control.
(1mark)
- c) Explain the circumstances under which price control is considered necessary.
(10 marks)
- d) What are the consequences of price control measures?
(5marks)
(Total 20 marks)

End of question paper