



CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT THURSDAY :5 DECEMBER 2013

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

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OUESTION ONE

(a) Distinguish between own-price elasticity of demand and cross- elasticity of demand. (10 Marks)

(b) Briefly discuss the factors which affect the price elasticity of demand.

(c) Discuss the usefulness of these parameters in management and economic policy decision-making.

(6 Marks)

(Total: 20 Marks)

QUESTION TWO

Explain the factors of production. (4 Marks)

Explain the meaning of mobility of factors of production. (3 Marks)

To what extent are factors of production mobile? (6 Marks)

(i) State the aspects of significance of factor mobility (3 Marks)

(ii) What policy recommendations would you suggest to reduce regional development

imbalance in developing countries?

(4 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) Differentiate between economies of scale and returns to scale (4 Marks)

 $AC = Q^2 - 8Q + 57 + 2/Q$, determine the level of output which maximizes profits.

(b) Given a firm's demand function Q - 90 + 2P = 0 and its average cost function

(NB: only the first order condition is required). (8 Marks)

(c) (i) Explain why a firm in perfect competition may continue in the production of goods which it can only (4 Marks)

sell at a loss and why it cannot continue doing this indefinitely.

(ii) Illustrate and explain the short-run supply curve of a firm in perfect competition. (4 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Define Money and outline its major functions. (8 Marks)

c) i) Define taxation.

b) Explain the various motives of holding money. (6 Marks)

c) What are the likely effects of an expansionary monetary policy in an economy? (6 Marks)

(Total: 20 Marks)

OUESTION FIVE

a) What is meant by the term international trade?

(4 Marks)

b) In the context of international trade, explain the concept of comparative advantage with specialization.

(10 Marks)

c) Define and briefly explain Balance of Payments (BOP).

(6 Marks) (Total: 20 Marks)

QUESTION SIX

(a) (i) Based on the circular flow of income analysis, explain why marginal propensity to consumer plus marginal propensity to save equals one.

ii) What is the relationship between the simple multiplier and marginal propensity to consume? 3 Marks)

(b) Given a hypothetical consumption function of the form:

$$C = a + bY_d$$

Where $Y_d = Y - T$

Y = Income

T = Taxes and that:

Government spending and investment are exogenously determined at G and I respectively: Determine Government Spending Multiplier. (5 Marks)

(c) Briefly explain the hindrances encountered in estimating national income values of a developing country.

(8 Marks)

(Total: 20 Marks)

QUESTION SEVEN

Modern economies can be highly influenced by the way their budgets are frame worked.

Required:

F2.2

a) Clearly explain the role of budgetary management in economic development.

(8 Marks)

b) Briefly explain the types of budgets.

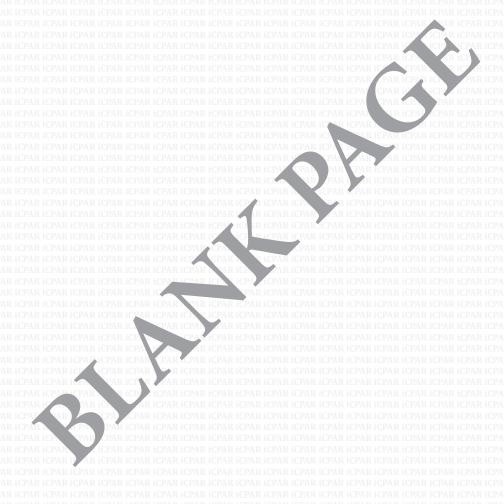
(3 Marks)

(2 Marks) (7 Marks)

(ii) Clearly explain the principle functions of taxation.

(Total: 20 Marks)

End of question paper



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