CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATIONS

L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT

TUESDAY: 1 DECEMBER 2015

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

QUESTION ONE

(a)   Distinguish between multiplier and accelerator principles as used in national income.   **(2 Marks)**

(b)   Explain three limitations to the use of marginal productivity theory of distribution in rewarding factors of production in developing countries.   **(9 Marks)**

(c)   Explain three demerits of a heavy debt to a developing country.   **(9 Marks)**

(Total 20 Marks)

QUESTION TWO

(a)   Explain four reasons why small firms continue operating alongside big firms despite the existence of economies of scale.   **(12 Marks)**

(b)   Illustrate the relationship between marginal and average costs of a firm.   **(8 Marks)**

(Total 20 Marks)

QUESTION THREE

(a)   Account for wage differences among workers in Rwanda.   **(6 Marks)**

(b)   Explain three characteristics of firms operating under a monopolistic competition market structure.   **(6 Marks)**

(c)   Explain four reasons for the low volume of trade in developing countries.   **(8 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a)   Explain eight roles of commercial banks in the economic development of Rwanda.   **(16 Marks)**

(b)   Using an illustration, distinguish between an inflationary gap and a deflationary gap.   **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a)   With the help of illustration, distinguish between a change in demand and a change in quantity demanded.   **(4 Marks)**

(b)   Discuss any four determinants of interest rate in Rwanda.   **(4 Marks)**

(c) (i) Explain what is meant by 'marginal propensity to save'.   **(1 Mark)**

     (ii) Given that a raise in national income from Frw 5,200 Million to 6,000 Million led to an increase in savings from Frw 400 Million to Frw 420 Million; calculate the marginal prosperity to save   **(2 Marks)**

(d)   Discuss three implications of protectionism on Rwanda's economy.   **(9 Marks)**

(Total 20 Marks)

QUESTION SIX

(a)   Explain what is meant by 'marginal efficiency of capital'.   **(1 Mark)**

(b)   Explain four reasons why Rwanda relies more on indirect taxes than direct taxes   .   **(12 Marks)**

(c)   Explain seven main objectives of Rwanda's monetary policy.   **(7 Marks)**

                                                                                          (Total 20 Marks)

QUESTION SEVEN

(a)   (i)   Define the term 'cross elasticity of demand'   **(1 Mark)**

        (ii)   Explain the implication of cross elasticity of demand being negative.   **(3 Marks)**

(b)   Explain four factors that affect the coefficient of income elasticity of demand.   **(6 Marks)**

(c)   Explain five ways how the government of Rwanda finances a deficit budget.   **(10 Marks)**

                                                                                          (Total 20 Marks)

End of question paper

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