

CERTIFIED PUBLIC ACCOUNTANT LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

WEDNESDAY: 2 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) Illustrate and explain the effect of an increase in the supply of commodity on the price of that commodity when the demand for that commodity remains constant. (6 Marks)
- (b) Given that the price of commodity [A] increased from Frw 1,000 to Frw 1,500 and as a result the quantity demanded of commodity [B] fell from 10 Kilograms to 5 Kilograms per week.

REQUIRED:

- (i) Calculate the elasticity of demand for commodity [B]. (3 Marks)
- (ii) What is the relationship between the two commodities [A] and [B]? (1 Mark)
- (c) Explain five likely causes of increase in the demand for sugar in Rwanda even when its price has not reduced. (10 Marks)

(Total 20 Marks)

QUESTION TWO

- (a) Distinguish between Perfect competition and Monopoly market structures. (2 Marks)
- (b) Explain eight features of a monopolistic competitive market structure. (8 Marks)
- (c) Using an illustration, explain how a firm under monopolistic competition determines output, price and profits in the short run. (10 Marks)

(Total 20 Marks)

QUESTION THREE

- (a) Explain five reasons why firms in an economy need to grow. (5 Marks)
- (b) Explain seven ways in which a small scale firm in Rwanda can expand its size. (7 Marks)
- (c) Discuss eight economic factors that can make merging of firms in Rwanda difficult. (8 Marks)

(Total 20 Marks)

QUESTION FOUR

- (a) State the theory of marginal productivity of wages. (2 Marks)
- (b) The table below shows the total physical product in Kilograms realised by a firm from the employment of given units of capital and labour.

Unit of capital	10	10	10	10	10
Units of labour	0	1	2	3	4
Total physical product (Kilograms)	0	5	12	22	27

REQUIRED:

- (i) Calculate the marginal physical product per worker employed. (4 Marks)
- (ii) Assuming that the price of a commodity is Frw 2,000 per kilogram, calculate the wage paid to each worker. (4 Marks)
- (c) Explain the limitations of the marginal productivity theory in the determination of wages in Rwanda. (10 Marks)

(Total 20 Marks)

QUESTION FIVE

- Describe the three approaches used in national income measurement. (6 Marks)
- Explain the problems encountered in using the income approach (method) when computing national income statistics of a country. (6 Marks)
- Since the level of national income determines a country's standing and respect in international affairs, countries strive to persistently increase the level of their national income from year to year;

REQUIRED:

Explain the ways in which the national income of Rwanda can be persistently increased (8 Marks)

(Total 20 Marks)

QUESTION SIX

- Explain the functions of money in an economy. (4 Marks)
- An initial deposit of Frw 5 Million is made in the commercial banking system in Rwanda. The cash ratio set by the National Bank of Rwanda is 10%. Assume there are Three commercial banks [A], [B] and [C] in the economy.

REQUIRED:

- Show the process of credit creation in the commercial banking system above. (8 Marks)
- Calculate the total credit created in the economy. (2 Marks)
- Explain any six factors that determine the size of money multiplier in an economy. (6 Marks)

(Total 20 Marks)

QUESTION SEVEN

- Account for unfavorable terms of trade faced by developing countries. (8 Marks)
- Under global sourcing strategies, one strategic decision is whether the organization will source from a small number of international supply markets to exploit country specific advantages and economies of scale or from a wider global range to minimize supply risks and supply a wider range of local markets.

REQUIRED:

- Explain six benefits to a firm arising out of adopting a global sourcing strategy. (6 Marks)
- Discuss six challenges that are likely to be faced by firms engaged in global sourcing. (6 Marks)

(Total 20 Marks)

End of question paper



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