INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance

Associate of IFAC

CERTIFIED ACCOUNTING TECHNICIAN

LEVEL 1 EXAMINATIONS

L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT

TUESDAY: 29 NOVEMBER 2016

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. All iCPAR Examination rules and regulations apply

Attempt any five questions

QUESTION ONE

(a) Explain four factors which influence the supply of commodities in the market. **(7 Marks)**

(b) (i) Define the term 'marginal propensity to consume'. **(1 Mark)**

(ii) Given marginal propensity to consume of 40%, calculate the multiplier magnitude. **(3 Marks)**

(c) (i) Define the term 'protectionism' as used in international trade. **(1 Mark)**

(ii) Explain the tools of protectionism that are used in international trade. **(8 Marks)**

(Total 20 Marks)

QUESTION TWO

(a) Explain the merits and demerits of monopoly in an economy. **(8 Marks)**

(b) Examine the implications of setting a minimum wage in developing countries. **(6 Marks)**

(c) Explain the benefits of the East African integration to the economy of Rwanda. **(6 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) (i) With examples, distinguish between joint supply and composite supply. **(4 Marks)**

(ii) Explain the different ways in which the government of Rwanda uses the concept of elasticity.

(4 Marks)

(b) (i) Distinguish between a balanced budget and an unbalanced budget. **(4 Marks)**

(ii) Explain the demerits of public borrowing to the economy of Rwanda. **(8 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Explain any four features of a command economy. **(4 Marks)**

(b) (i) Explain the factors influencing the demand for labour in an economy. **(6 Marks)**

(ii) Distinguish between time rate system of wage payment and piece rate system. **(4 Marks)**

(c) Account for the decision of the government of Rwanda to levy direct taxes in the economy. **(6 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) Explain the determinants of marginal efficiency of capital. **(6 Marks)**

(b) Explain the advantages of value added tax on economies of developing countries like Rwanda.

(7 Marks)

(c) Explain the instruments of monetary policy being used by the National Bank of Rwanda to regulate the amount of money in circulation. **(7 Marks)**

(Total 20 Marks)

QUESTION SIX

(a) Distinguish between:

(i) Horizontal mergers and vertical mergers. **(2 Marks)**

(ii) Conglomerate mergers and lateral mergers. **(2 Marks)**

(iii) Normal profits and excess profits. **(2 Marks)**

(b) Explain the factors which determine the level of profits for firms in Rwanda. **(4 Marks)**

(c) (i)Explain the policies used to overcome the balance of payment deficit. **(5 Marks)**

(ii)Explain why devaluation has not solved balance of payment problem in developing countries. **(5 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) Explain the characteristics of money. **(5 Marks)**

(b) Distinguish between income per capita and income per factor. **(2 Marks)**

(c) With the help of a diagram, explain the four phases of the trade cycle. **(8 Marks)**

(d) Explain the determinants of interest rate in an economy. **(5 Marks)**

(Total 20 Marks)

End of question paper