

CERTIFIED PUBLIC ACCOUNTANT
LEVEL 2 EXAMINATIONS
F2.2: ECONOMICS AND THE BUSINESS
ENVIRONMENT
WEDNESDAY: 29 NOVEMBER 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven (7)** questions and only **five (5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. All iCPAR Examination rules and regulations apply.

Attempt any five questions

QUESTION ONE

- (a) Explain the:
- (i) Limitations of the marginal productivity theory of wages. **(6 Marks)**
 - (ii) Circumstances under which labour may be paid low wages in an economy. **(7 Marks)**
- (b) Explain the merits of using capital intensive techniques of production by firms in Rwanda. **(7 Marks)**
- (Total 20 Marks)**

QUESTION TWO

Explain:

- (a) The benefits of indirect taxes in an economy. **(7 Marks)**
 - (b) The reasons for the low taxable capacity in a developing economy. **(8 Marks)**
 - (c) How government uses the tools of fiscal policy to minimise the extent of inflation in an economy. **(5 Marks)**
- (Total 20 Marks)**

QUESTION THREE

Explain:

- (a) Why most firms owned by the local people in Rwanda tend to be small in size. **(8 Marks)**
 - (b) The internal diseconomies of scale that are faced by firms in Rwanda. **(5 Marks)**
 - (c) The functions of capital in the development process of your country. **(7 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

- (a) Explain why the law of comparative advantage is not applicable in developing countries. **(8 Marks)**
 - (b) Discuss the advantages of a fixed exchange rate in an economy. **(4 Marks)**
 - (c) Explain the ways of improving your country's terms of trade in order to benefit from the global market. **(8 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) Discuss the shortcomings of the identity model in the circular flow of income concept. **(4 Marks)**
- (b) Explain the measures that are taken to increase the level of gross domestic product (GDP) of an economy. **(10 Marks)**
- (c) Given that the GDP of a country is USD 240 billion, net factor incomes from abroad are USD 160 billion and depreciation costs are USD 28 billion;

Determine the:

- (i) Gross national product (GNP) of the country. **(3 Marks)**
 - (ii) Net national product (NNP) of the country. **(3 Marks)**
- (Total 20 Marks)**

QUESTION SIX

- (a) With the aid of a diagram, explain how a firm under monopoly situation determines output, price and profits in the short-run. **(8 Marks)**
 - (b) Explain the merits of monopolistic competition market structure in your country. **(8 Marks)**
 - (c) Explain why prices in an oligopolistic market tend to be stable in the long-run. **(4 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

- (a) Discuss the merits of a laissez faire economic system. **(6 Marks)**
- (b) The table below shows the output of a certain firm.

Number of workers	Total product (bales)	Marginal product (bales)	Average product (bales)
1	08	08	-
2	24	16	12
3	44	-	-
4	80	-	-
5	90	10	18
6	98	-	-
7	100	02	-
8	100	-	-

REQUIRED:

Determine the missing values for:

- (i) Marginal product. **(4 Marks)**

- (ii) Average product. **(6 Marks)**
- (c) Explain why the average cost curve is 'U' shaped:
- (i) In the short-run. **(2 Marks)**
- (ii) In the long-run. **(2 Marks)**
- (Total 20 Marks)**
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End of question paper