
CERTIFIED ACCOUNTING TECHNICIAN
LEVEL 1 EXAMINATION
L1.5: ECONOMICS AND BUSINESS ENVIRONMENT
TUESDAY: 4 DECEMBER 2018

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) (i) With examples, distinguish between an inferior good and a superior good. **(4 Marks)**
- (ii) Explain the advantages of a command economy. **(4 Marks)**
- (b) Describe the measures that can be taken by the government of Rwanda to correct the defects of price mechanism. **(6 Marks)**
- (c) Explain the factors that lead to an increase in demand for commodities in Rwanda. **(6 Marks)**
- (Total 20 Marks)**

QUESTION TWO

- (a) (i) Distinguish between efficiency of labour and productivity of labour in a firm. **(2 Marks)**
- (ii) Given the information below, answer the questions that follow;

Number of workers	6	7	8	9
Output produced, in tons	480	630	800	1080

Determine the productivity of labour for the number of workers as shown in the table. **(5 Marks)**

- (b) (i) Explain the factors that give rise to monopoly firms in an economy. **(5 Marks)**
- (ii) Discuss the merits and demerits of the practice of price discrimination by firms in Rwanda. **(8 Marks)**
- (Total 20 Marks)**

QUESTION THREE

- (a) (i) Describe the assumptions underlying the kinked demand curve analysis. **(4 Marks)**
- (ii) Using an illustration, explain the short-run profit maximization position of firms under perfect competition market structure. **(6 Marks)**
- (b) Account for the failure of merging of firms in a country like Rwanda. **(10 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

- (a) (i) Distinguish between cross elasticity of demand and income elasticity of demand. **(2 Marks)**
- (ii) Explain the factors that give rise to inelastic demand for goods in Rwanda. **(8 Marks)**
- (b) (i) Describe the following terms as used in wage determination.
1. Collective bargaining.
 2. Individual bargaining.
 3. Piece rate method.
 4. Time rate method.
- (4 Marks)**
- (ii) Explain the merits of using the piece rate method of wage payment in Rwanda. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) (i) With the aid of a diagram, distinguish between a deflationary gap and an inflationary gap. **(4 Marks)**
- (ii) Describe the measures that can be used for closing a deflationary gap in Rwanda. **(5 Marks)**
- (b) (i) Explain the causes of inflation in the economy of Rwanda. **(5 Marks)**
- (ii) Discuss the measures that can be taken to reduce the problem of inflation in Rwanda. **(6 Marks)**
- (Total 20 Marks)**

QUESTION SIX

- (a) Explain the functions of money in the economy of Rwanda. **(4 Marks)**
- (b) (i) Explain the effects of unemployment to the economy of Rwanda. **(8 Marks)**
- (ii) Describe the measures that can be taken to reduce the level of unemployment in Rwanda. **(8 Marks)**
- (Total 20 Marks)**

QUESTION SEVEN

- (a) (i) Define the term 'liquidity preference'. **(1 Mark)**
- (ii) Describe the factors that influence the level of liquidity preference in Rwanda. **(9 Marks)**
- (b) (i) Discuss the qualities of a good tax system in an economy. **(7 Marks)**
- (ii) Explain the merits of a progressive tax system in the Rwanda Economy. **(3 Marks)**
- (Total 20 Marks)**

