
**CERTIFIED PUBLIC ACCOUNTANT
LEVEL 2 EXAMINATIONS**

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

WEDNESDAY: 5 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) Distinguish between choice and opportunity cost. **(2 Marks)**
- (ii) Explain the circumstances under which the opportunity cost concept can be used in an economy. **(4 Marks)**
- (b) Explain the merits and demerits of a free enterprise economy. **(10 Marks)**
- (c) With examples from Rwanda, explain the terms ‘primary production’ and ‘tertiary production’. **(4 Marks)**
- (Total 20 Marks)**

QUESTION TWO

- (a) Explain the need for labour mobility in a country like Rwanda. **(6 Marks)**
- (b) (i) Describe the features of firms under conditions of monopolistic competition in Rwanda. **(7 Marks)**
- (ii) Explain the advantages of firms operating under conditions of monopolistic competition in Rwanda. **(7 Marks)**
- (Total 20 Marks)**

QUESTION THREE

- (a) (i) Explain the reasons why firms in Rwanda may choose to grow through diversification. **(6 Marks)**
- (ii) In the principal-agent theory of firms, discuss the reasons for and against the ‘shareholders’ emphasis model’ if firms in Rwanda use it. **(4 Marks)**
- (b) Study the following table and answer the question that follows.

Level of output	Units produced (kg)	Total cost (RWF)	Total revenue (RWF)
1	20	12,000	20,000
2	30	14,000	42,000
3	40	24,000	60,000

Determine the per unit profit for the 3 levels of output sold by the firm as shown in the table. **(4 Marks)**

- (c) (i) Distinguish between ‘economic rent’ and ‘commercial rent’ in relation to factor Payments. **(2 Marks)**
- (ii) Explain **four** determinants of economic rent earned by factors of production in Rwanda. **(4 Marks)**

(Total 20 Marks)

QUESTION FOUR

- (a) Describe the factors which determine aggregate demand in an economy. **(8 Marks)**
- (b) Explain the limitations of using per-capita income to compare the standard of living between Rwanda and Kenya. **(8 Marks)**
- (c) Discuss the arguments advanced by the Government of Rwanda for planning of a surplus budget. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Discuss the benefits of a trade liberalization policy to the economy of Rwanda. **(10 Marks)**
- (b) Explain the challenges met by commercial banks in their operations in Rwanda. **(5 Marks)**
- (c) (i) Define the term ‘money multiplier’. **(1 Mark)**
- (ii) Given that the cash ratio in the banking system is 20%; calculate the money multiplier in the banking system. **(4 Marks)**

(Total 20 Marks)

QUESTION SIX

- (a) (i) Distinguish between export promotion and import substitution strategies of industrial development. **(2 Marks)**
- (ii) Discuss the benefits of import substitution strategy to the economy of Rwanda. **(8 Marks)**
- (b) Explain the merits and demerits of foreign exchange control in the economy of Rwanda. **(10 Marks)**

(Total 20 Marks)

QUESTION SEVEN

- (a) (i) Distinguish between income terms of trade and barter terms of trade.
(2 Marks)
- (ii) Explain the measures that can be taken to improve on the terms of trade of Rwanda in the global economy.
(8 Marks)
- (b) Explain the negative implications of Rwanda adopting protectionism as a restrictive measure against free international trade.
(10 Marks)
- (Total 20 Marks)**