CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

THURSDAY: 05 DECEMBER 2019

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) In 2017 to 2018 if a household income raised from Frw 100,000 to Frw 250,000 and its consumption raised from Frw 80,000 to Frw 200,000. Calculate the marginal propensity to consume and marginal propensity to save. **(6 Marks)**

b) Briefly discuss Tax evasion and tax avoidance **(4 Marks)**

c) Describe the phase of recession business cycle **(6 Marks)**

d) Discuss the main determinants of maize supply in Rwanda. **(4 Marks)**

(Total Marks 20)

QUESTION TWO

(a) Distinguish between a progressive and a proportional tax. **(2 Marks)**

(b) Describe four roles of direct taxes in income re-distribution in Rwandan economy.
(4 Marks)

(c) Identify the role of money multiplier in banks towards credit creation for Rwanda.
(10Marks)

(d) Explain the determinants of money in circulation within the economy of Rwanda.
(4 Marks)
(Total Marks 20)

QUESTION THREE

(a) Distinguish between accelerator and multiplier effect as used in economics. **(4 Marks)**

(b) With a clear illustration, describe the circular flow of income in an open economy like Rwanda. **(8 Marks)**

(c) Discuss the role of Rwandan government in raising national income levels to middle income status by 2020. **(8 Marks)**
(Total Marks 20)

QUESTION FOUR

a) Describe duopoly in market and give two examples in Rwanda. **(6 Marks)**

 b) Discuss using a diagram the concept of demand shortage **(6 Marks)**

 c) If the demand schedule is as below:

	Price (Rwf)	Quantity
A	10	8
B	7	9.5

Calculate the point elasticity of demand. **(4 Marks)**

d) Describe the unemployed person. **(4 Marks)**
(Total 20 Marks)

QUESTION FIVE

(a) With an illustration, describe the principle of opportunity cost in the production possibilities frontier. **(8 Marks)**

(b) Discuss the factors determining wage levels in Rwanda. **(6Marks)**

(c) Explain the role of collective bargaining in trade unions, used to determine returns to employees. **(6 Marks)**

(Total Marks 20)

QUESTION SIX

Considering the following table below:

Labour	1	2	3	4	5	6	7	8	9	10
Output	2	7	17	30	40	49	60	56	54	45

a) Calculate marginal product, average product and elasticity of production. **(6 Marks)**

b) Describe the law of comparative advantage **(4 Marks)**

c) Discuss engagement of different economic sectors in production. **(6 Marks)**

d) Describe price discrimination and its three major variables. **(4 Marks)**

(Total 20 Marks)

QUESTION SEVEN

a) Explain the contents of balance of payment accounts. **(6 Marks)**

b) Describe the steps to be undertaken by Rwanda to register a balance of payment surplus by 2020. **(8Marks)**

c) Explain the benefits of a global market environment for firms in Rwanda. **(6 Marks)**

(Total Marks 20)