
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.2: ECONOMICS AND THE BUSINESS
ENVIRONMENT**

THURSDAY: 03 DECEMBER 2020

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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings where necessary.

QUESTION ONE

- a) Explain the following terms commonly used in the economics and give one example to each.
- i. **Marginal costs;** (2Marks)
 - ii. **Variable costs;** (2Marks)
 - iii. **Fixed costs.** (2Marks)
- b) Using an example explain why the demand for land and labour are derived demand (4Marks)
- c) i. Define the following terms: “Producer surplus and the law of return to scale”. (4Marks)
- ii. Explain three types of law of return to scale and give example for each. (6 Marks)

(Total 20 Marks)

QUESTION TWO

- a) i. Distinguish between an indifference curve and a budget line. (4 Marks)
- ii. Indifference curves represent a consumer`s preferences, and have certain properties that reflect those preferences.
Explain four (4) important properties that describe most indifference curves. (8Marks)
- b) i. Explain the marginal productivity theory of wages. (4Marks)
- ii. The marginal productivity of labour is based on the given assumptions, give at least four (4) of these assumptions. (4Marks)

(Total 20 Marks)

QUESTION THREE

- a) Discuss four ways of price determination under oligopoly. (8 Marks)
- b) Explain at least three barriers to entry into oligopoly industry. (6Marks)
- c) Distinguish between oligopoly, perfect oligopoly and imperfect oligopoly and give two examples of oligopoly firms in Rwanda. (6 Marks)

(Total 20 Marks)

QUESTION FOUR

- a) Suppose that Rwandan investment increases by Rwf 10,000,000 and MPC (Marginal Propensity to Consume) = 0.25, by how much does National Income increase? (4Marks)

- b) Given that GDP in 2016 = Rwf 250,000,000, GDP in 2017 = Rwf 300,000,000; the rate of inflation in 2017 was 5%. **What is the real income rate? Explain** (6Marks)

- c) Given that change in expenditure is Rwf 50,000 and change in income is Rwf 100,000.

Required:

Calculate the multiplier and comment on answer. (6 Marks)

- d) Consumption of Fanta changes from Rwf 500 to Rwf 700 and as a result, investment changes from Rwf 900 to Rwf 1300.

Required:

Calculate the accelerator and comment on answer. (4Marks)

(Total 20 Marks)

QUESTION FIVE

- a) **Explain the following terms**

i. **Tariffs;**

(3Marks)

ii. **Export Subsidies;**

(3Marks)

iii. **Quotas;**

(2Marks)

iv. **Voluntary export restriction.**

(2Marks)

- b) **Discuss the costs and benefits of a tariff**

(4Marks)

- c) **Explain at least three advantages of global market.**

(6Marks)

(Total 20 Marks)

QUESTION SIX

- a) **Explain the following theories of money**

i. **Quantity theory of money developed by classical economists;** (3 Marks)

ii. **Keynes's liquidity preference theory;** (3Marks)

iii. **Friedman's modern quantitative theory of money.** (2 Marks)

- b) **Briefly explain at least three functions performed by Central Bank of Rwanda.**

(6Marks)

- c) Suppose you deposit your savings in a BK account that pays 8% interest annually. Next year, you withdraw your savings and an accumulated interest. **Are you 8% richer than you were when you made the deposit a year earlier? Justify your answer by**

considering two scenarios: If the inflation rate was 5% and If the inflation rate was 10%. (4 Marks)

- d) From the above example where the inflation rate is 5% write down the nominal and real interest rates. (2 Marks)

(Total 20 Marks)

QUESTION SEVEN

- a) Discuss the effects of inflation on the economy and the welfare of consumer. (14 Marks)

- b) Explain at least three ways used by monetary policy to control inflation. (6Marks)

- c) The table below shows the quantity demanded of a commodity at different price levels.

Price	Quantity
5000	10
9000	8

REQUIRED:

Calculate the price elasticity of demand. (4 Marks)

(Total 20 Marks)