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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.2: ECONOMICS AND THE BUSINESS
ENVIRONMENT**

DATE: THURSDAY, 28 JULY 2022

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **FIVE** questions **should be attempted**.
- Marks allocated to each question are shown at the end of the question.
- Show all your workings where necessary.
- The question paper should not be taken out of the examination room

QUESTION ONE

- (a)
- (i) **Define Marginal Opportunity Cost.** (2 Marks)
- (ii) Given on a Production Possibility Frontier (PPF) curve a shift caused by increase in production of machines by 10 units and reduction in production of fruits by 1000 units; **determine the opportunity cost of producing one extra machine.** (4 Marks)
- (iii) **With examples explain the uses of opportunity cost concept to the economic units in Rwanda.** (6 Marks)
- (b)
- (i) **State the law of supply.** (2 Marks)
- (ii) **Explain the determinants of the shift of the supply curve at a constant price.** (6 Marks)
- (Total: 20 Marks)**

QUESTION TWO

- (a) **With examples describe four factors that determine economies of scope in the production processes of firms in Rwanda.** (4 Marks)
- (b)
- (i) **Define Utility.** (2 Marks)
- (ii) **Compare and contrast Cardinal and ordinal utility with specific examples in Rwanda.** (8 Marks)
- (c) A firm has just started producing a new product. The market price for the product is FRW 1 and the product demand per day is 100 units. An increase in price by FRW 0.50 will reduce demand by 30 units.
- (i) **Calculate the elasticity of demand at current price of FRW 1.** (4 Marks)
- (ii) **With reasons explain if the demand is elastic or inelastic.** (2 Marks)
- (Total: 20 Marks)**

QUESTION THREE

(a) Using cost of production formula in the short run, **Calculate the total cost of book's** producing firm with 2 employees working in the factory earning FRW 150,000 each and the fixed cost for the factory is FRW 400,000. (3 Marks)

(b) **State the law of diminishing returns and explain with examples the steps of production** (9 Marks)

(c) **Discuss the factors to consider for a firm to record profit maximization in the long run under the current economic crisis driven on the Covid-19 pandemic in Rwanda.** (8 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) The table below shows the summary of the firm's production analysis. Use the information to answer the questions that follow:

Milk Production Per Day in Litres

No of workers	Total Product (TP)	Average Product (AP)	Marginal Product (MP)
1	3	3	3
2	-	5	7
3	24	8	-
4	36	-	12
5	40	8	4
6	-	7	2
7	42	-	0
8	40	5	-

(i) **Calculate the Total Product, Average Product and Marginal Product to fill the spaces in the table.** (6 Marks)

(ii) Using the figures in the table, **explain the relationship between TP, AP and MP as used in the production processes.** (6 Marks)

(iii) **Describe three economic reasons that are behind the relationship between TP, AP and MP in the production process.** (3 Marks)

(b) **Describe how monopoly firms determine output, price and profits in the short-run.** (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

- (a)
- (i) **Explain the assumptions of the kinked demand curve for Oligopoly firms.** (2 Marks)
 - (ii) **Based on the assumptions provided above, describe the characteristics of Oligopoly firms with examples from Rwanda economic environment.** (5 Marks)
 - (iii) **Explain why prices in an oligopolistic market tend to be stable in the long-run.** (3 Marks)
- (b) **State and explain FIVE types of unemployment in any economic structure.** (10 Marks)
- (Total: 20 Marks)**

QUESTION SIX

- (a)
- (i) **Differentiate between ‘national income at factor cost’ and ‘national income at market price.’** (2 Marks)
 - (ii) **State the benefits of import substitution strategy in an open economy.** (6 Marks)
- (b)
- (i) **Describe the components of the Balance of Payment.** (6 Marks)
 - (ii) **Explain the ways through which Rwanda can improve its global terms of trade to register a surplus balance of payment position.** (6 Marks)
- (Total 20 Marks)**

QUESTION SEVEN

- (a)
- (i) **Distinguish between demand-pull inflation and cost-push inflation.** (2 Marks)
 - (ii) **Discuss the effects of high inflation rates to consumer welfare.** (4 Marks)
 - (iii) **Describe steps undertaken by economies globally to control the rate of inflation.** (4 Marks)
- (b) **Discuss the benefits of trade liberalization policy to the economy of Rwanda.** (10 Marks)
- (Total: 20 Marks)**

End of question paper