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## **CERTIFIED PUBLIC ACCOUNTANT**

### **LEVEL 2 EXAMINATIONS**

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

**WEDNESDAY: 10 JUNE 2015**

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### **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 2014, a Rwandan family owns a plant in Nairobi which it rents at US\$100,000. A group of Rwandan citizens employed in Kampala earn US\$150,000. A branch of Agha Kan Hospital, a Nairobi based hospital, located in Kimihurura - Rwanda has an annual income of US\$ 200,000 it earns in Rwanda. A group of Kenyan teachers operating in Kigali earn US\$ 70,000. If the Rwandan GDP for 2014 was US\$ 30 BN what was the Rwandan GNP? **(10 Marks)**
- b) The table below represents economic transactions for Rwanda in billions of US dollars:

	Total Output	Intermediate purchases
Agriculture	3	1
Manufacturing	7	4.5
Services	5.5	2.5

### REQUIRED:

- i) Calculate the Gross National Product of this economy using the value added approach. **(2 Marks)**
- ii) If depreciation and indirect taxes equal 0.8 billion and 0.7 billion respectively, find the Net Domestic Product both at Market prices and at factor cost. **(3 Marks)**
- iii) Give four major importances for estimating National Income of your Country. **(2 Marks)**
- iv) What difficulties do economists encounter while carrying out such a task particularly in developing countries? **(3 Marks)**
- (Total 20 Marks)**

## QUESTION TWO

- a) Explain the following terms as used in business and economics
- Human Wants **(2 Marks)**
  - Economic Resources **(2 Marks)**
  - Natural Resources **(2 Marks)**
  - Scarcity and Choice **(2 Marks)**
  - Opportunity Cost **(2 Marks)**
- b) Economic Systems refer to the way in which different societies solve the three different basic economic problems. Discuss five features of a free market economy. **(10 Marks)**
- (Total 20 Marks)**

## QUESTION THREE

- a) Explain the difference between competitive supply and joint supply. **(4 Marks)**
- b) Using illustrations, explain the effect of change in demand and change in quantity supplied. **(6 Marks)**
- c) Discuss the factors that may lead to a fall in supply. **(10 Marks)**
- (Total 20 Marks)**

#### QUESTION FOUR

- a) Briefly explain the factors of production and demonstrate how they are combined by the firms in the process of producing goods and services. (10 Marks)
- b) Explain the utility maximization rule. A person's monthly income is Frw 70,000 and he/she devotes the whole income on the consumption of two goods, X and Y.
- i) If the price of X is Frw 3,500 and the marginal utility of X is 4, while the marginal utility of Y is 6: (2 Marks)
- ii) What should be the price of Y for him to maximize his utility? (2 Marks)
- iii) What is the Marginal Rate of Substitution at this consumption bundle? (2 Marks)
- iv) Draw the budget line for this consumer at this consumption bundle. (4 Marks)
- (Total 20 Marks)

#### QUESTION FIVE

- a) Explain the levels of economic integration. (8 Marks)
- b) Discuss the economic implication of regional integration within the African continent. (12 Marks)
- (Total 20 Marks)

#### QUESTION SIX

- a) In most countries, one of the causes of an increase in money supply is printing of money to fund elections. As an Economist working with the National Bank of Rwanda advise the government why such a decision is not good for the country (5 Marks)
- b) Discuss **at least five** monetary policy tools available to National Bank of Rwanda to solve the problems caused by excess money supply. (15 Marks)
- (Total 20 Marks)

#### QUESTION SEVEN

Given the current developments in the East African Community, the government of Rwanda has licensed three milk processing plants to operate in Rwanda. As the production manager of MILKRWA Ltd, you are worried that increased competition will have a negative effect on your firm.

#### REQUIRED:

Using the concepts of internal and external economies of scale, explain how you can use competition to the advantage of your company.

(Total 20 Marks)

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## End of question paper