
**CERTIFIED ACCOUNTING TECHNICIAN
LEVEL 1 EXAMINATION**

L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT

TUESDAY: 7 JUNE 2016

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 transfer earnings and economic rent. **(2 Marks)**
- (ii) Explain four merits of the piece rate method of wage payment. **(6 Marks)**
- (b) Explain four functions of the Central Bank of Rwanda. **(6 Marks)**
- (c) Describe four methods used to determine prices in an economy. **(6 Marks)**

(Total 20 Marks)

QUESTION TWO

- (a) (i) Explain what is meant by the term 'tertiary production'. **(2 Marks)**
- (ii) Describe four types of industries engaged in tertiary production in Rwanda. **(8 Marks)**
- (b) Explain three factors that limit the merging of firms in an economy. **(6 Marks)**
- (c) Describe four forms of non-price competition used to attract customers by firms under oligopoly. **(4 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) Explain the assumptions underlying the theory of comparative advantage. **(8 Marks)**
- (b) Given the value of gross domestic product (GDP) at factor cost for Rwanda is Frw 500 billion, indirect taxes are Frw 300 billion and subsidies are Frw 250 billion.
Determine the country's GDP at market price. **(2 Marks)**
- (c) Assess the role of taxation in the development of Rwanda. **(10 Marks)**

(Total 20 Marks)

QUESTION FOUR

- (a) Using an illustration, explain the long run equilibrium position of a firm under conditions of perfect competition. **(6 Marks)**
- (b) (i) Distinguish between a managed exchange rate system and a floating exchange rate system. **(2 Marks)**
- (ii) Explain four merits of a managed exchange rate system in an economy. **(8 Marks)**
- (iii) Illustrate how national income is determined in an open economy with a government sector. **(4 Marks)**

(Total 20 Marks)

QUESTION FIVE

- (a) Explain four objectives of the national economic policy of Rwanda. **(8 Marks)**
- (b) Explain four functions of money in an economy. **(6 Marks)**

(c) Discuss the arguments advanced for free trade in developing economies. (6 Marks)

(Total 20 Marks)

QUESTION SIX

(a) Using an illustration, explain maximum price and minimum price legislation. (8 Marks)

(b) Describe four assumptions underlying the marginal productivity theory of wages. (6 Marks)

(c) With an illustration, explain reasons why the three approaches to the measurement of national income yield identical results. (6 Marks)

(Total 20 Marks)

QUESTION SEVEN

(a) Describe the concept of diversified growth of a firm. (2 Marks)

(b) Explain the rewards to the four factors of production. (4 Marks)

(c) (i) Illustrate and explain the prices output and profit determination of a monopoly firm in the short-run. (6 Marks)

(ii) Explain four basis of monopoly power in an economy. (8 Marks)

(Total 20 Marks)

End of question paper

