



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF RWANDA
Driving Sustainable Performance



CERTIFIED PUBLIC ACCOUNTANT LEVEL 2 EXAMINATION

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

WEDNESDAY: 8 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**

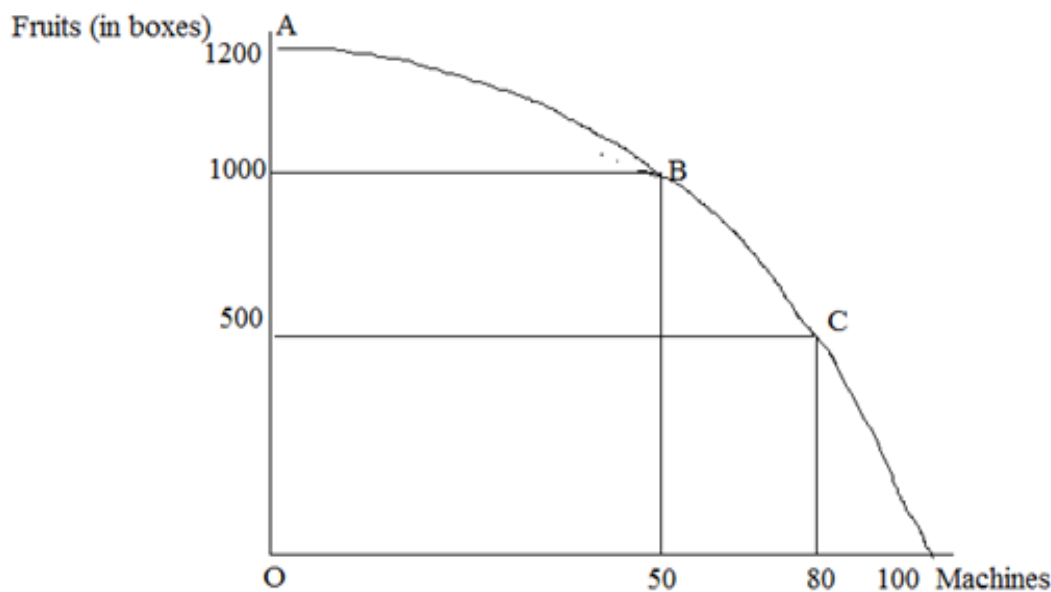
QUESTION ONE

- (a) Describe four internal economies of scale that are enjoyed by large firms in Rwanda. **(4 Marks)**
- (b) (i) Distinguish between vertical integration and horizontal integration of firms. **(2 Marks)**
(ii) Explain the motives of vertical integration of firms. **(4 Marks)**
- (c) (i) Explain five determinants of the level of interest rates in an economy. **(5 Marks)**
(ii) Discuss five effects of interest rate changes in an economy. **(5 Marks)**

(Total 20 Marks)

QUESTION TWO

- (a) Use the production possibility frontier (PPF) curve below to answer the question that follows.



- (i) If one wants to produce more machines by moving its production option from B to C; determine the opportunity cost of producing one additional unit of machine. **(3 Marks)**
- (ii) Explain the uses of the opportunity cost concept to the economic units. **(4 Marks)**
- (b) (i) Describe the characteristics of the recession phase of a business cycle. **(4 Marks)**
(ii) Explain the negative effects of business cycles on an economy. **(4 Marks)**
- (c) (i) Distinguish between a floating exchange rate and fixed exchange rate. **(2 Marks)**
(ii) Explain the merits of adopting a floating exchange rate system on an economy. **(3 Marks)**

(Total 20 Marks)

QUESTION THREE

- (a) Identify four barriers to entry that need to be overcome by new entrants if they are to compete in an industry in an economy. **(4 Marks)**
- (b) (i) Distinguish between supply price and economic rent as payments to a factor of production. **(2 Marks)**
- (ii) Explain four factors that determine the level of economic rent paid to a factor of production. **(4 Marks)**
- (c) (i) Given that the marginal propensity to consume in Rwanda is 0.8; calculate the size of the investment multiplier. **(3 Marks)**
- (ii) Assuming there is a change in investment from Frw 450 billion to Frw 630 billion and the original income is Frw 3,600 billion in the economy in c(i) above; calculate the final level of income. **(3 Marks)**
- (iii) Explain the factors that determine the power to save in Rwanda. **(4 Marks)**
- (Total 20 Marks)**

QUESTION FOUR

- (a) (i) Distinguish between factor intensity and factor mobility. **(2 Marks)**
- (ii) Explain the advantages and disadvantages of labour mobility. **(6 Marks)**
- (b) Explain three advantages and three disadvantages of a move to free enterprise economic system. **(6 Marks)**
- (c) Describe six fears that prevent a monopolist from charging a very high price in order to earn large supernormal profits. **(6 Marks)**
- (Total 20 Marks)**

QUESTION FIVE

- (a) Explain the value-creating drivers for the diversification growth strategy by firms. **(3 Marks)**
- (b) (i) Given that a firm's average cost is Frw 300,000, the average revenue or selling price Frw 550,000 and an ad valorem tax of 5%; assuming the firm is to maintain the existing per unit profit, determine the new selling price. **(3 Marks)**
- (ii) Explain the economic implications of levying indirect taxes on Rwanda's economy. **(8 Marks)**
- (b) Explain at least three differences between interest and profits as factor payment. **(6 Marks)**
- (Total 20 Marks)**

QUESTION SIX

- (a) Explain five limitations of the monetary policy in an economy. **(5 Marks)**
- (b) Given the following information, determine the comparative advantage enjoyed by each country as the basis for specialisation.

Country	Resources	Bales of cotton	Transformers
A	200	20,000	2,000
B	200	15,000	1,200

- (4 Marks)**
- (c) Explain six restrictions to free international trade that can be taken by an economy. **(6 Marks)**
- (d) (i) Explain the term 'net export' **(2 Marks)**
- (ii) Discuss the factors that influence the level of net exports of an economy. **(3 Marks)**

(Total 20 Marks)

QUESTION SEVEN

- (a) Identify six causes of an upward-sloping demand curve. **(6 Marks)**
- (b) Discuss six roles of capital as a factor of production to a firm. **(6 Marks)**
- (c) Distinguish between leakages and injections in the circular flow of income. **(2 Marks)**
- (d) (i) Distinguish between discretionary fiscal policy and compensatory fiscal policy. **(2 Marks)**
- (ii) Discuss four limitations of compensatory fiscal policy. **(4 Marks)**

(Total 20 Marks)

End of question paper