CERTIFIED PUBLIC ACCOUNTANT

LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

WEDNESDAY: 07 JUNE 2017

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has **seven(7)** questions and only **five(5)** questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings.
5. All iCPAR Examination rules and regulations apply.

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Attempt any five questions

QUESTION ONE

(a) (i) Describe the functions of money in an economy. **(3 Marks)**

(ii) Explain the internal economies of scale that may be enjoyed by large scale firms in Rwanda. **(5 Marks)**

(b) Describe the injections into and the leakages out of the circular flow of income in an economy. **(6 Marks)**

(c) Explain the causes of the poor terms of trade faced by Rwanda's economy. **(6 Marks)**

(Total 20 Marks)

QUESTION TWO

(a) (i) Distinguish between diversified and horizontal merger. **(2 Marks)**

(ii) Explain the objectives of the monetary policy of Rwanda. **(3 Marks)**

(b) (i) Explain the methods used to restrict international trade in Rwanda. **(6 Marks)**

(ii) Describe the factors which influence the economic rent paid to a factor of production in an economy. **(4 Marks)**

(c) Explain the merits of monopolistically competitive firms in Rwanda. **(5 Marks)**

(Total 20 Marks)

QUESTION THREE

(a) (i) With examples, distinguish between structural and strategic barriers to entry in a economy. **(4 Marks)**

(ii) Discuss the ways that can be used to reduce wage differentials in the economy of Rwanda. **(5 Marks)**

(b) (i) Distinguish between income multiplier and investment multiplier in an economy. **(2 Marks)**

(ii) Explain the factors that determine the size of the investment multiplier in an economy. **(4 Marks)**

(c) Discuss the problems that are faced by the banking sector in Rwanda. **(5 Marks)**

(Total 20 Marks)

QUESTION FOUR

(a) Explain the various ways that can be used by the government of Rwanda in financing a deficit budget. **(6 Marks)**

(b) (i) Account for the upward sloping nature of a supply curve from the left to the right. **(4 Marks)**

(ii) Explain the factors that lead to low supply of commodities in Rwanda. **(4 Marks)**

(c) "Perfectly competitive firms in Rwanda are of great advantage to their economy". Explain in detail. **(6 Marks)**

(Total 20 Marks)

QUESTION FIVE

(a) (i) Describe any two stages of a business cycle. **(2 Marks)**

(ii) Account for the fear by some firms in Rwanda to merge with others. **(5 Marks)**

(b) (i) Define the term "mobility of capital". **(2 Marks)**

(ii) Explain the factors that hinder the mobility of capital in Rwanda. **(4 Marks)**

(c) (i) Differentiate between net national product and gross domestic product. **(2 Marks)**

(ii) Given gross domestic product at factor cost of $840 million and depreciation cost of $10million.

REQUIRED:

Determine the net domestic product at factor cost. **(5 Marks)**

(Total 20 Marks)

QUESTION SIX

(a) Explain the positive impact of government spending in Rwanda's economy. **(6 Marks)**

(b) (i) Explain the meaning of the term "interest rate" **(1 Mark)**

(ii) Discuss the determinants of interest rates charged on firms and individuals in an economy. **(5 Marks)**

(c) Explain how the tools of monetary policy are used to reduce money supply in Rwanda's economy. **(8 Marks)**

(Total 20 Marks)

QUESTION SEVEN

(a) Explain the limitations of using per capita income figures to compare the standard of living in a country between two periods. **(6 Mark)**

(b) (i) Describe the market limitations to large scale production by firms in Rwanda's economy. **(4 Marks)**

(ii) Explain why firms that make losses in the Rwanda economy do not immediately close down. **(8 Marks)**

(c) Describe the assumptions on which the concept of diminishing marginal utility operates. **(4 Marks)**

(Total 20 Marks)

End of question paper