CERTIFIED ACCOUNTING TECHNICIAN (CAT)

LEVEL 1 EXAMINATION

L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT

TUESDAY: 5 JUNE 2018

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.

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QUESTION ONE

(a)   Distinguish between average product and marginal product.   **(2 Marks)**
(b)   With examples, explain the factors determining investment in the economy   **(6 Marks)**
        of Rwanda.
(c)   (i)   Define non-commodity money and give examples.   **(4 Marks)**
        (ii)   Explain the functions of commercial banks in Rwanda.   **(8 Marks)**
                                                                      (Total 20 Marks)

QUESTION TWO

(a)   (i)   Distinguish between change in demand and change in quantity demanded.
                                                                           (2 Marks)
        (ii)   Explain the factors which lead to a decrease in the supply of a commodity.
                                                                           (8 Marks)
(b)   Explain the motives of merging of firms in Rwanda.
                                                                           (6 Marks)
(c)   Briefly explain the following trading relationship among countries:

(i)	Preferential tariffs	**(1 Mark)**
(ii)	Free trade area.	**(1 Mark)**
(iii)	Customs union.	**(1 Mark)**
(iv)	Single market.	**(1 Mark)**

                                                                      (Total 20 Marks)

QUESTION THREE

(a)   Describe three agency costs under the principal-agent theory.   **(4 Marks)**
(b)   (i)   Discuss the factors that influence the level of liquidity preference in Rwanda.
                                                                           (8 Marks)
        (ii)   Explain the effects of managed exchange rate policy on East Africa countries.
                                                                           (8 Marks)
                                                                      (Total 20 Marks)

QUESTION FOUR

(a)   (i)   Explain the principles of good taxation in an economy.   **(5 Marks)**
        (ii)   Examine the advantages of relying on indirect taxes in developing countries.
                                                                           (5 Marks)
(b)   (i)   Explain the factors determining the level of wages in Rwanda.   **(5 Marks)**
        (ii)   Describe the limitations of the marginal productivity theory of wages.
                                                                           (5 Marks)
                                                                      (Total 20 Marks)

QUESTION FIVE

(a)   (i)   Distinguish between protectionism and commercial policy.   **(2 Marks)**
       (ii)   Explain the negative effects of protectionism in international trade.   **(8 Marks)**

(b)   (i)   With examples, distinguish between maximum price legislation and minimum price legislation.

(2 Marks)
       (ii)   Explain the effects of price legislation on an economy.   **(8 marks)**
(Total 20 Marks)

QUESTION SIX

(a)   (i)   With examples, distinguish between injections and leakages in the circular flow of income in an open economy.

(4 Marks)
       (ii)   Explain the **three** approaches to the measurement of national income in developing countries.

(6 Marks)
(b)   (i)   Differentiate between real economies and pecuniary economies of scale.

(4 Marks)
       (ii)   Explain the economies of scale enjoyed by firms in Rwanda.   **(6 marks)**
(Total 20 Marks)

QUESTION SEVEN

(a)   (i)   Distinguish between gross national product and gross domestic product.

(2 Marks)
       (ii)   Explain the measures taken to improve terms of trade in Rwanda.

(6 Marks)
(b)   Explain the effects of localisation of firms on an economy of   **(12 Marks)**
       Rwanda.

(Total 20 Marks)

END OF QUESTION PAPER

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