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## **CERTIFIED PUBLIC ACCOUNTANT (CPA)**

### **LEVEL 2 EXAMINATIONS**

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

**WEDNESDAY: 6 JUNE 2018**

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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) Describe the ways that can be used in determining prices of commodities in Rwanda. **(6 Marks)**
- (b) Explain the implications of the various elasticity of demand concepts on different types of commodities. **(8 Marks)**
- (c) With the use of illustrations, explain the meaning of the following economic terms:
- (i) Consumer equilibrium. **(2 Marks)**
  - (ii) Equilibrium of the firm. **(2 Marks)**
  - (iii) Market equilibrium. **(2 Marks)**
- (Total 20 Marks)**

## QUESTION TWO

- (a) (i) Illustrate and explain what you understand by a kinked demand curve. **(5 Marks)**
- (ii) Explain the disadvantages of oligopolistic firms in Rwanda's economy. **(6 marks)**
- (b) Explain the forms of non-price competition of oligopolistic firms in Rwanda. **(4 Marks)**
- (c) The table below shows the production of coffee in the Northern Province of Rwanda.

Output (kg)	0	1	2	3	4	5
Total cost (Frw)	25	32	38	42	48	58

Using the above information, determine the:

- (i) Total fixed cost (TFC). **(2 Marks)**
  - (ii) Marginal cost for output levels 1, 2, 3, 4 and 5. **(3 Marks)**
- (Total 20 Marks)**

## QUESTION THREE

- (a) Using an illustration, explain the long-run profit maximization for a firm under perfect competition. **(6 Marks)**
- (b) (i) Define the term vertical merging of firms. **(1 Mark)**
- (ii) Explain the advantages and disadvantages of merging of firms in Rwanda. **(13 Marks)**
- (Total 20 marks)**

#### QUESTION FOUR

- (a) (i) Define the term profit. **(1 Mark)**  
(ii) Explain the factors that influence the level of profits earned by entrepreneurs in an economy. **(5 Marks)**
- (b) Discuss why factors of production tend to earn low economic benefits in Rwanda. **(6 Marks)**
- (c) (i) Given the marginal propensity to consume of an economy as 0.75; determine the size of the investment multiplier in the economy. **(3 Marks)**  
(ii) Explain the reasons for low size of the multiplier in East African countries. **(5 Marks)**
- (Total 20 Marks)**

#### QUESTION FIVE

- (a) Explain the objectives of the National Economic Policy of Rwanda. **(4 Marks)**  
(b) Explain the advantages of indirect taxes in an economy. **(6 Marks)**  
(c) (i) Define the term national budget. **(1 Mark)**  
(ii) Explain the importance of a national budget in national economic development of Rwanda. **(9 Marks)**
- (Total 20 Marks)**

#### QUESTION SIX

- (a) Explain the reasons for free trade between countries in Eastern Africa. **(8 Marks)**  
(b) (i) Explain the components of the balance of payments statement of a country. **(4 Marks)**  
(ii) Describe the measures that can be taken to improve the balance of payments position of Rwanda. **(8 Marks)**
- (Total 20 Marks)**

#### QUESTION SEVEN

- (a) Discuss the functions of the Central Bank of Rwanda. **(8 Marks)**  
(b) Describe the qualities of good money in an economy. **(6 Marks)**  
(c) Explain the factors determining the exchange rate in the money market in Rwanda. **(6 Marks)**
- (Total 20 Marks)**

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**END OF QUESTION PAPER**

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