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**CERTIFIED ACCOUNTING TECHNICIAN**

**LEVEL 1 EXAMINATION**

**L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT**

**TUESDAY: 4 JUNE 2019**

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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) (i) Explain the advantages of a mixed economy. **(4 Marks)**  
(ii) Describe instances where opportunity cost is applied in Rwanda. **(4 Marks)**
- (b) (i) Explain the factors limiting capital accumulation in Rwanda. **(6 Marks)**  
(ii) Describe the measures that are being taken to increase capital accumulation in Rwanda. **(6 Marks)**
- (Total 20 Marks)**

### QUESTION TWO

- (a) (i) State the features of firms operating under monopolistic competition. **(5 Marks)**  
(ii) Describe the non-price competition methods being used by firms under monopolistic competition. **(5 Marks)**
- (b) (i) Distinguish between trade creation and trade diversion. **(2 Marks)**  
(ii) Explain the causes of balance of payments deficit in Rwanda. **(8 Marks)**
- (Total 20 Marks)**

### QUESTION THREE

- (a) (i) Define the term ‘factor payments’ giving four examples. **(5 Marks)**  
(ii) Given that Karemera has an actual earning of Frw 530,000 and transfer earnings of Frw 320,000; determine his economic rent. **(3 Marks)**
- (b) (i) Distinguish between elasticity of demand and price elasticity of demand. **(2 Marks)**  
(ii) Explain the factors which lead to high elasticity of demand for a commodity. **(10 Marks)**
- (Total 20 Marks)**

### QUESTION FOUR

- (a) (i) Differentiate between national income at factor cost and national income at market price. **(2 Marks)**  
(ii) Discuss the problems faced when computing price indices in Rwanda. **(8 Marks)**
- (b) (i) Distinguish between a residual wage and a subsistence wage. **(2 Marks)**  
(ii) Explain the causes of wage differentials among workers in Rwanda. **(8 Marks)**
- (Total 20 Marks)**

### QUESTION FIVE

- (a) (i) Describe the assumptions underlying the process of credit creation. **(4 Marks)**  
(ii) Explain the limitations of the process of credit creation in developing countries. **(6 Marks)**
- (b) (i) Differentiating between a fixed exchange rate and a floating exchange rate. **(2 Marks)**  
(ii) Explain the advantages and disadvantages of a floating exchange rate system in an economy. **(8 Marks)**
- (Total 20 Marks)**

### QUESTION SIX

- (a) (i) Distinguish between consumption multiplier and investment multiplier. **(2 Marks)**  
(ii) Describe the methods that can be used to improve the standards of living in Rwanda. **(10 Marks)**
- (b) (i) Differentiate between horizontal merging and vertical merging of firms. **(2 Marks)**  
(ii) Explain the limitations of Fishers' quantity theory of money in a modern economy. **(6 Marks)**
- (Total 20 Marks)**

### QUESTION SEVEN

Explain:

- (a) the reasons why private ownership of business enterprise is highly recommended in Rwanda. **(5 Marks)**
- (b) the role of fiscal policy as a tool of economic development in Rwanda. **(10 Marks)**
- (c) why Rwanda would choose industrial development strategy over agricultural development strategy. **(5 Marks)**
- (Total 20 Marks)**

