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## **CERTIFIED PUBLIC ACCOUNTANT**

### **LEVEL 2 EXAMINATIONS**

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

**WEDNESDAY: 5 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) The following table shows the costs incurred by a coffee factory in Gatare on a daily basis. Study it and answer the questions that follow.

Output (bags)	0	30	40	50	60	70	80	90	100
Cost (Frw '000')	6	16.5	18.4	21	24	28	36	45	58

### REQUIRED:

Calculate the:

- (i) Fixed costs of the factory. **(2 Marks)**
- (ii) Average cost for output levels: 30, 50, 70 and 90 bags. **(8 Marks)**
- (b) Discuss the internal and external diseconomies of scale that firms experience in Rwanda. **(10 Marks)**  
**(Total 20 Marks)**

## QUESTION TWO

- (a) (i) Describe the features of land as a factor of production. **(4 Marks)**
- (ii) Explain the functions of land in the economy of Rwanda. **(4 Marks)**
- (b) Discuss the strategic entry barriers that can be used by firms in Rwanda. **(6 Marks)**
- (c) Discuss the benefits of horizontal growth to the firms in Rwanda. **(6 Marks)**  
**(Total 20marks)**

## QUESTION THREE

- (a) Explain the factors that foster the growth of firms in the economy of Rwanda. **(6 Marks)**
- (b) Describe the limitations of the marginal productivity theory of wages in Rwanda. **(8 Marks)**
- (c) (i) Distinguish between normal and supernormal profits. **(2 Marks)**
- (ii) Discuss the roles of profits in the economy of Rwanda. **(4 Marks)**  
**(Total 20 Marks)**

## QUESTION FOUR

Use the following information to answer the questions that follow:

(a) Given the following information:

	\$ 'million'
Gross domestic product (GDP) at factor cost	220
Net factor income from abroad	40
Indirect taxes	70
Subsidies	56

Calculate the gross national product (GNP) at market price. **(4 Marks)**

- (b) (i) Explain the problems that are encountered when estimating national income in a developing economy like Rwanda. **(8 Marks)**
- (ii) Discuss the factors that affect real income in an economy. **(4 Marks)**
- (c) Describe the assumptions of the investment multiplier in an economy **(4 Marks)**  
**(Total 20 Marks)**

## QUESTION FIVE

- (a) Explain the benefits of aggressive industrialisation policy in the economy of Rwanda. **(8 Marks)**
- (b) Discuss the effects of a deficit budget in a developing economy. **(6 Marks)**
- (c) Explain the merits of direct taxes in the economy of Rwanda. **(6 Marks)**  
**(Total 20 Marks)**

## QUESTION SIX

- (a) (i) Oliver Ruzibiza borrowed Frw 2 million for 5 years from a commercial bank based in Gisenyi. He was informed he would pay back Frw 12 million at the end of the 5 years.

### REQUIRED:

- (i) Calculate the rate of interest on the loan that Oliver borrowed. **(4 Marks)**
- (ii) Discuss the reasons advanced for the payment of interest to capital owners in an economy. **(5 Marks)**
- (b) Describe the sources of foreign exchange in the economy of Rwanda. **(6 Marks)**
- (c) Explain the conditions that must be in place for the successful operation of monetary policy in an economy. **(5 Marks)**  
**(Total 20 Marks)**

## QUESTION SEVEN

- (a) Explain the merits of Rwanda's application of the law of comparative advantage in trading with other countries. **(6 Marks)**
  - (b)
    - (i) Distinguish between a flexible exchange rate and a fixed exchange rate. **(2 Marks)**
    - (ii) Discuss the effects of a flexible exchange rate on a developing economy like Rwanda. **(6 Marks)**
  - (c) Describe the components of a global marketing environment that can be experienced by firms in Rwanda. **(6 Marks)**
- (Total 20 Marks)**