CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

DATE: THURSDAY 30, NOVEMBER 2023

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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings where necessary.
5. The question paper should not be taken out of the examination room.

QUESTION ONE

(a) Using a specific example**, explain 'ceteris paribus' as used in economics** (2 Marks)

(b) Explain six factors limiting consumer's sovereignty (6 Marks)

(c) The managing director of CPA Arena, a popular entertainment house located at Gisimenti, hires a consultant to advise on different prices charged per tickets of watching movies and attending music concerts. The following functions relate to the tickets of watching movies:

$Q_x=3P^2- 4P$, $Q_y=24-P^2$

Where: Q is the quantity of tickets in numbers
P is the price in FRW

Required:

Point elasticity of supply at equilibrium point (7 Marks)

(d) Summarise five roles of economic agents in a mixed economy (5 Marks)

(Total: 20 Marks)

QUESTION TWO

(a) Latex Mining company Ltd holds a quarry license to mine gold from Ngororero quarries since the year of 2000. The company extract raw gold and use it to manufacture wedding rings, and other different forms of golden awards. Being the only manufacturer of these luxurious products, the company charges the highest price at the extent that poor couples cannot afford a ring.

Required:

Explain any six factors behind the existence of Latex as a sole supplier of golden luxurious products on the Rwandan market. (6 Marks)

(b) Explain any three defects of an unregulated market. (6 Marks)

(c) Briefly explain the term 'price cartel' and identify four factors that influence its success. (8 Marks)

(Total: 20 Marks)

QUESTION THREE

(a) Nguvu cement Ltd was incorporated in Rwanda with a specific aim of producing and distributing quality cement to meet construction projects' needs. The company is setting up a factory in a populated area of Mageragere industrial park, a new undeveloped industrial site with no access roads and other basic infrastructure. Among the activities of producing cement involves heavy trucks transporting clay and clinker.

Required:

Explain any four positive and four negative production externalities of Nguvu Cement Ltd. (8 Marks)

(b) Identify eight reasons why small firms survive alongside the large firms despite the fact that larger firms enjoy economies of scale (8 Marks)

(c) The demand function of a firm is given as follows:

$Q+5P=10$

Where: Q is the level of output

P is the unit price

Required:

(i) Find the average revenue function. (2 Marks)

(ii) Find the total revenue function. (2 Marks)

(Total: 20 Marks)

QUESTION FOUR

(a) Discuss any four reasons why governments across the world try to shield their industries from international competition. (8 Marks)

(b) Explain three advantages and three disadvantages of international trade. (6 Marks)

(c) Explain an economic integration and any four of its key obstacles. (6 Marks)

(Total: 20 Marks)

QUESTION FIVE

(a) Give four factors that limit the application of multiplier in an economy (4 Marks)

(b) The household income rose by FRW 100,000 in 2011 and as a result consumption and saving rose accordingly and resulted into the marginal propensity to save (MPS=0.2) and marginal propensity to consume (MPC=0.8). The table below concerns the year of 2020 to 2022:

Year	Income (Y)	Consumption(C)	Saving (S)
2020	100	100	0
2021	200	160	40
2022	300	220	80

Required:

(i) Calculate average propensity to save and average propensity to consume. (6 Marks)

(i) With aid of a graphical illustration**, explain underemployment equilibrium.** (10 Marks)

(Total: 20 Marks)

QUESTION SIX

(a) Explain any five factors determining the supply of a factor of production (10 Marks)

(b) With aid of a graphical illustration**, explain how equilibrium price of labour is determined in a free market.** (5 Marks)

(c) Explain economic welfare and list down any four objections to the perfect competition as a market that favors economic welfare. (5 Marks)

(Total: 20 Marks)

QUESTION SEVEN

(a) Outline five functions of taxation and five qualities of a good tax system (10 Marks)

(b) Using a graphical illustration, **explain how interest rate is determined** (5 Marks)

(c) Outline any five function of the central bank (5 Marks)

(Total: 20 Marks)

End of question paper