



CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.2: ECONOMICS AND BUSINESS ENVIRONMENT
DATE: THURSDAY 28, NOVEMBER 2024

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. This question paper should not be taken out of the examination room.

QUESTION ONE

TUBURA Ltd is a beverage company producing a variety of juice products and operates in the economy where the prices of the products are determined by the forces of demand and supply. At other times the demand for food products is determined by the government to protect the citizens from exploitation. The company has been in this market for a very long time. The prices of juice products have been fluctuated over the years which has affected the demand for TUBURA Ltd.'s products. The company recently introduced in the market a new product known as Ubuzima juice. The market price for this product is FRW 100 and the quantity demanded per month is 1,400 units. An increase in price to FRW 130 due to increased costs of production led to a reduction in the quantity demanded for the juice to 1,000 units.

Required:

- a) **Discuss two types of economic systems in which TUBURA Ltd operates.** (2 Marks)
- b) **Explain five factors that may influence the demand of a product like Ubuzima juice.** (5 Marks)
- c) **Explain three assumptions that relate to any market economy.** (6 Marks)
- d) **Calculate the price elasticity of demand for Ubuzima Juice and interpret your results.** (7 Marks)
(The answer should be in 2 decimal places).

(Total: 20 Marks)

QUESTION TWO

IGIRE Ltd is a well-established company manufacturing agricultural inputs. The government's vision is to increase food production and security for the next 10 years. Through its Ministry of Agriculture, Fisheries and Animal Husbandry, it has mandated IGIRE Ltd to produce fertilizers and distributed them to the local farmers at an affordable price. The company will be producing 10,000 metric tons of fertilizers per year for 10 years. This will curb down fertilizer imports in the country and boost exports.

Required:

- a) **Discuss three sources of monopoly that can be applied to IGIRE Ltd.** (6 Marks)
- b) **Explain three challenges of unregulated markets.** (6 Marks)
- c) **Explain two advantages and six disadvantages of a market economy.** (8 Marks)

(Total: 20 Marks)

QUESTION THREE

Kageyo Special Economic Zones (SEZs) established in 2013 in the Southern Province of the country to promote the growth of industries, create more jobs, attract foreign investment and enhance infrastructural development in the area. However; the residents have complained of pollution, deforestation, congestion and depletion of mineral resources. In the recent visit to the Province, the Director General of the National Environmental Authority was informed about the potential externalities. The Director General has approached you to get an understanding of the matter first before an action is taken. You have identified that there are both external costs and external benefits that arise from the SEZs.

Required:

- a) **Differentiate between external costs and external benefits and explain three effective measures the government can undertake to regulate externalities.** (8 Marks)
- b) **Explain four ways small firms can manage to compete with larger firms in a modern market.** (8 Marks)
- c) Rugira Ltd deals in the production of cosmetic products in Gasabo District. Impano one of its product is widely demanded by the residents of the District. The marginal revenue for the product is $MR = 18 - 3Q^2 + 6Q$ where MR is marginal revenue and Q is quantity.

Required:

- i) **Find total revenue function for Impano product given that the constant value is zero.** (2 Marks)
 - ii) **Find the demand function for the product from the total revenue function obtained.** (1 Mark)
 - iii) **Find the price in FRW for the product at the quantity demanded of 5 units from the demand function obtained.** (1 Mark)
- (Total: 20 Marks)**

QUESTION FOUR

Economic integration is an arrangement among nations that typically includes the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. Economic integration aims to reduce costs for both consumers and producers and to increase trade between the countries involved in the agreement. Economic integration is sometimes referred to as regional integration as it often occurs among neighbouring nations. Countries have championed for continual liberation through forming regional economic groupings such as EAC, SADC, EU, BRICS, ASEAN and many more others. The regional integrations promote trade facilitation among the member countries.

Required:

- a) State two barriers to free trade and explain four arguments for protectionism as applied to the case. (8 Marks)
- b) Explain six reasons why countries engage in international trade. (6 Marks)
- c) Discuss three stages of economic integration that countries undergo form complete regional economic groupings. (6 Marks)

(Total: 20 Marks)

QUESTION FIVE

- a) Highlight four limitations of multiplier in an economy. (4 Marks)
- b) At the beginning of the year, three brothers (Mugisha, Mugire and Muhirwa) committed themselves to be saving a proportion of their income every month. Every month they have to meet and review their savings and expenditure.

The table below shows their incomes and savings for June and July 2024:

Name	Month	Savings (FRW)	Income (FRW)
Mugisha	June	100,000	250,000
	July	120,000	280,000
Mugire	June	100,000	300,000
	July	140,000	400,000
Muhirwa	June	120,000	420,000
	July	180,000	530,000

Required:

- a) With a graphical illustration, explain the concept of underemployment equilibrium. (10 Marks)
- b) Calculate the marginal propensity to save (MPS) and marginal propensity to consume (MPC) for each brother. (Leave your answer in 2 decimal places). (6 Marks)

(Total: 20 Marks)

QUESTION SIX

The table below shows the units produced of bread for Huye Bakery Ltd with its relevant costs.

Quantity in Kgs	Fixed Cost (FRW)	Variable Cost (FRW)	Total Cost (FRW)	Average Fixed Cost (FRW)	Average Variable Cost (FRW)	Average Total Cost (FRW)	Marginal Cost (FRW)
0	50	0	50	-	-	-	
1	50	90	140	50	90	140	
2	50	120	170	25	60	85	
3	50	130	180	17	43	60	
4	50	140	190	13	35	48	
5	50	160	210	10	32	42	
6	50	190	240	8	32	40	
7	50	230	280	7	33	40	
8	50	280	330	6	35	41	
9	50	340	390	6	38	43	

Required:

- a) Calculate marginal cost and with the help of a graph, explain the relationship between average fixed cost, average variable cost, average total costs and marginal cost. (15 Marks)
- b) Explain what is meant by “economic welfare” and explain two types of efficiency that can lead to the achievement of economic welfare. (5 Marks)

(Total: 20 Marks)

QUESTION SEVEN

a) The Revenue Authority (RA) of Murage District recently introduced a taxation system that requires all businesses to use Electronic Billing Machines. This initiative is aimed at enhancing efficient tax administration and improve revenue collection for the District. The Commissioner General has approached for clarification on the forms of tax and the qualities of a good taxation system.

Required:

- i) Explain to the Commissioner the difference between progressive tax and regressive tax with reference to taxation. (2 Marks)
- ii) Explain two advantages and two disadvantages of direct tax. (4 Marks)
- iii) Highlight two functions of taxation and two qualities of a good tax system in an economy. (4 Marks)

- b) With a graphical illustration, **explain the determination of rate of interest.** (5 Marks)
- c) **Explain five monetary policy tools used by the central bank to control money in the circulation.** (5 Marks)

(Total: 20 Marks)

End of question paper

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