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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.2: ECONOMICS AND THE BUSINESS
ENVIRONMENT**

DATE: THURSDAY, 31 MARCH 2022

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) Muhanga brewery Ltd was incorporated in 2020 to deal in wines production in Rwanda. The company's marketing manager Kwigira Emmanuel analyses the demand and supply of their wines using graphical illustrations to advise on the proper time to create a shortage on the market for a price increase. During the recent COVID-19 lockdown, brewery companies announced abnormal profits, the following information was recorded by the winery:

- 1) When P=1500 Q=200 Bottles
And when P=925 Q=150 Bottles
- 2) When P=505 Q=20 Bottles
And when P=305 Q=40 Bottles

Where P: Price (FRW) and Q: Quantity

Required:

(i) Obtain a linear function for each of the points 1) and 2) given above and clearly explain which one is demand or supply, assuming this wine to be a normal commodity. (8 Marks)

(ii) Explain what is meant by market equilibrium and obtain the equilibrium quantity for the above information (2 Marks)

(b) With the aid of a well labelled diagram using the information given in the table below:

Units	1	2	3	4	5	6	7
Total utility (Utils)	10	18	24	28	30	30	28

Required:

Explain the law of diminishing marginal utility (5 Marks)

(c) Outline five characteristics of indifference curves as per ordinal approach. (5 Marks)

(Total: 20 Marks)

QUESTION TWO

The production of Irish potatoes in Rwanda has never been unique, the market is dominated by farmers cooperatives each producing a small fraction of total products required on the Rwandan Market. Among the Cooperatives, we consider Aheza, Jyambere, Ubumwe, Ingabo and Kitabi cooperatives and none can influence the price in the market. As they sell identical product, there is a rivalry for buyers during the harvesting season.

Required:

(a) Using a diagram, explain how a short run profit maximization is achieved by a firm under perfect competitions (6 Marks)

(b) The table below shows the total product and average product for different levels of workers:

Number of workers	0	1	2	3	4	5	6	7	8	9
Total Product (TP)	-	6	16	27	40	45	48	49	49	40
Average Product (AP)	-	6	8	9	10	9	8	7	6.1	4.4

Required:

With aid of the information given above, use a well labelled diagram to explain the diminishing Marginal Productivity Theory. (8 Marks)

(c) Outline six factors affecting the demand of a factor of production (6 Marks)

(Total: 20 Marks)

QUESTION THREE

B&M Builders Ltd entered the Rwandan market with a specific aim of availing cheaper houses to employees and other salaried individuals by allowing instalment payments. Following the presentation of the audit report for the year ended 31st December 2021 by Pride Auditors in the Annual general meeting, the managing director was criticized the poor stewardship as reflected in the failure to expand the corporation to serve the market of NYAMATA, GICUMBI and RUBAVU. The shareholders advised that the company should look for all available growth strategies for the next Board of directors meeting discussion and approval.

Required:

(a) Explain four growth strategies available for B&M Builders Ltd (10 Marks)

(b) Explain two causes of the principle-agent problem in B&M Builders Ltd (10 Marks)

(Total: 20 Marks)

QUESTION FOUR

- (a) Differentiate a closed economy from an open economy (4 Marks)
 - (b) Outline two characteristics of each stage of business cycle (8 Marks)
 - (c) Write short notes on the Keynesian theory of income and employment (8 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

- (a) Explain three motives of holding money as per Keynesian Theory (6 Marks)
 - (b) List six effects of raising interest rate in the country (6 Marks)
 - (c) Outline eight roles of commercial banks in an economy (8 Marks)
- (Total: 20 Marks)**

QUESTION SIX

- (a) Outline four causes of rivalry in perfect competition market (4 Marks)
- (b) Explain eight factors affecting the supply of a commodity (8 Marks)
- (c) Given the following information about demand and supply at different levels of price:

Price (FRW)	100	200	300	400	500	600
Quantity Demanded (kgs)	250	200	150	100	50	5
Quantity Supplied (kgs)	5	75	150	225	300	375

Required:

- With aid of the data given in the above table, use a graphical illustration to explain how the price is determined in a perfect competition market. (8 Marks)
- (Total: 20 Marks)**

QUESTION SEVEN

- (a) Outline six Negative effects of inflation on the economy (6 Marks)
 - (b) Write short notes on three measures of Controlling inflation (6 Marks)
 - (c) Outline four assumptions of the theory of comparative advantage (4 Marks)
 - (d) List four Factors responsible for wage differentials between occupations (4 Marks)
- (Total: 20 Marks)**

End of question paper