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

**DATE: THURSDAY, 26 AUGUST 2020**

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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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings where necessary.

### QUESTION ONE

- (a) Explain the following terms as used in economics.
- i) Scarcity (1 Mark)
  - ii) Choice (1 Mark)
  - iii) Price floor (1 Mark)
  - iv) Opportunity cost (1 Mark)
- b) Discuss the characteristics of a free market system. (8 Marks)
- c) Discuss the factors that influence demand in Rwanda. (8 Marks)
- (Total: 20 Marks)**

### QUESTION TWO

- a) i) Explain the theory of consumer behaviour. (3 Marks)
- ii) Explain the advantages and disadvantages of the cardinal utility approach. (9 Marks)
- b) Discuss advantages and Disadvantages of Horizontal integration. (8 Marks)
- (Total: 20 Marks)**

### QUESTION THREE

- a) Define the term business cycle. (4 Marks)
- b) Discuss the characteristics of each phase. (16 Marks)
- (Total: 20 Marks)**

### QUESTION FOUR

- a) i) Define income elasticity of demand. (4 Marks)
- ii) The table below shows the income elasticity of demand

| Income | Quantity |
|--------|----------|
| 100    | 20       |
| 200    | 40       |

**Required:**

Calculate the income elasticity of demand. (6 Marks)

- b) Discuss the major factors that affect the supply of a commodity. (5 Marks)
- c) Explain some of the benefits of disequilibrium under price control system.

(5 Marks)

**(Total: 20 Marks)**

#### **QUESTION FIVE**

- a) Explain the major functions of money in an economy. (4 Marks)
- b) Discuss how the government of Rwanda can influence investment due to COVID-19 pandemic. (8 Marks)
- c) Explain the arguments for free trade restrictions in Rwanda. (8 Marks)

**(Total: 20 Marks)**

#### **QUESTION SIX**

- a) i) Explain the paradox of thrift. (1 Mark)  
ii) Explain the different measures used when calculating national income. (6 Marks)
- b) Discuss the factors that affect the potential size of national income in Rwanda. (8 Marks)
- c) Explain the difficulties that can be encountered when estimating national income. (5 Marks)

**(Total: 20 Marks)**

#### **QUESTION SEVEN**

- a) Explain the demand for money theories according to Keynes. (6 Marks)
- b) Discuss the functions of the central bank of bank of Rwanda. (6 Marks)
- c) Discuss the different functions of commercial banks. (8 Marks)

**(Total: 20 Marks)**

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