CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

THURSDAY, 02 DECEMBER 2021

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)

(i) The quantity demanded of product A has increased by 12% in response to a 15% increase in price of product B. **Calculate the cross elasticity of demand and explain the relationship between these two products and tell whether the products are substitutes or complements.** (4 Marks)

(ii) The government of Rwanda is serious about drugs. Possession of drugs is illegal and is severely penalized. However, a black market exists which the government has failed to dismantle despite serious attempts. The health minister is worried about the situation. In early 2019, a consultant working with health ministry suggested that the government should increase the price of a pack of cigarettes from FRW 5,000 to FRW 9,000. A survey conducted 2020 suggested that over the year, the quantity demanded of cannabis decreased from 2,000 kgs per day to just 800 kgs. **Calculate the cross elasticity of demand and explain why the policy has proved so effective.** (6 Marks)

b)

(i) **Explain two factors that influence the demand and supply of face masks and hand sanitizer during Covid-19** (2 Marks)

(ii) **Explain four factors that influence the demand of any product** (8 Marks)

(Total: 20 Marks)

QUESTION TWO

a) Explain how decisions made by consumers, firms, and government influence the balance of payments. (8Marks)

b)

i. **Explain the Lorenz curve.** (2 Marks)

ii. **State five uses of the Lorenz curve.** (5 Marks)

c) Using example describe the size of investment multiplier in an economy. (5 Marks)

(Total: 20 Marks)

QUESTION THREE

a) Rwanda is one of the fastest growing economies in Central Africa, notched up GDP growth of around 8% per year from 2001 to 2014**; discuss five factors that have contributed to this consistent growth**. (10 Marks)

b) **Explain four policies designed by the Government of Rwanda to promote export**.

(4 Marks)

c) Consider the world where there are only two countries, producing two goods - iron ore and cars. China can produce 80 units of Iron Ore or 100 Cars, while Australia can produce 70 units of Iron Ore or 50 Cars.

    i.   **Calculate each country's opportunity cost ratio of producing Cars and Iron Ore.**

(4 Marks)

    ii.   **Identify each country's comparative advantage** (2 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) **Explain the difference between tax avoidance and tax evasion.** (4 Marks)

b) **Explain the concept of double taxation and its effect on the international trade.**

(3 Marks)

c) **Distinguish between proportional, progressive, and regressive taxes and identify which ones are used for corporate and individual income in Rwanda.** (5 Marks)

d) **Calculate the income tax payable by a resident individual whose annual income is FRW 45 000 000**.

Note that the employee is provided with furnished accommodation (worth 20% of monthly income and a fueled car for private use (10% of his monthly income). The employee has two children attending school. The employer provides an education allowance of FRW 7,200,000 a year, paid monthly. (8Marks)

(Total: 20 Marks)

QUESTION FIVE

a) **Discuss four main characteristics of monopolistic competition.** (4 Marks)

b) **Graphically explain the long run/ output determination in monopolistic competition.** (5 Marks)

c) **Explain the difference between Monopoly and Perfect competition.** (5 Marks)

d) Differentiate between the following concept:

    i.   **Economies of scale from diseconomies of scale.** (2 Marks)

    ii.   **Fixed exchange rate from fluctuating exchange rate.** (4 Marks)

(Total: 20 Marks)

QUESTION SIX

a) **Explain how gross domestic product (GDP) is calculated using expenditure and income approach.** (4 Marks)

b) Using the information from different factors given in the table **below calculate GDP by using expenditure and income approach.** (6 Marks)

Payment Transfer	FRW54
Interest Income	FRW150
Depreciation	FRW36
Wages	FRW67
Gross private Investment	FRW124
Business Profit	FRW200
Indirect Business Taxes	FRW74
Rental Income	FRW75
Net Export(X-M)	FRW18
Net Foreign Factor Income	FRW12
Government Purchases	FRW156
Household Consumption	FRW304

c) **Explain the causes of movements along and shifts in aggregate demand curve**.

(6 Marks)

d) **Differentiate between cost-push and demand-pull inflation.** (4 Marks)

(Total: 20 Marks)

QUESTION SEVEN

a)

i. **Explain the primary objective of the National Bank of Rwanda** (3 Marks)

ii. In January 2019, the National Bank of Rwanda shifted from the quantity-based monetary policy framework to a price-based approach; **explain why it was necessary to change the monetary policy framework?** (4 Marks)

b) **Describe three qualities of effective central banks.** (3 Marks)

c) **Explain seven benefits and three costs of international trade.** (10 Marks)

(Total: 20 Marks)

End of question paper