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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS  
F2.2: ECONOMICS AND THE BUSINESS  
ENVIRONMENT  
DATE: THURSDAY, 29 APRIL 2021**

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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) (i) Briefly explain the law of demand and supply. (4 Marks)  
(ii) Discuss factors affecting the potential growth of national income in Rwanda. (8 Marks)
- (b) Explain the major problems that are faced when estimating national income in developing economies. (8 Marks)
- (Total:20 Marks)**

## QUESTION TWO

- (a) Explain the factors of production. (4 Marks)  
(b) What are the functions of markets in an economy like Rwanda? (6 Marks)  
(c) Discuss factors that determine aggregate demand in Rwanda. (10 Marks)
- (Total:20 Marks)**

## QUESTION THREE

Consider the following table

Labour	1	2	3	4	5	6	7
Output	26	54	84	112	137	158	161

- (a) (i) Calculate Marginal product (7 Marks)  
(ii) Describe the law of comparative and absolute advantage (3 Marks)
- (b) Explain the difference between floating exchange rate and fixed exchange rate (4 Marks)
- (c) Describe the factors that influence the volume of investment in an economy. (6 Marks)
- (Total:20 Marks)**

## QUESTION FOUR

- (a) Distinguish between proportional and progressive tax. (4 Marks)  
(b) Outline the advantages and disadvantages of progressive tax. (8 Marks)  
(c) What are the qualities of a good tax system? (8 Marks)
- (Total:20 Marks)**

### **QUESTION FIVE**

- (a) Distinguish between economies and diseconomies of scale** (4 Marks)
  - (b) Discuss both the characteristics of monopoly and monopolistic competition** (10 Marks)
  - (c) Explain the key determinants of wage levels in an economy like Rwanda** (6 Marks)
- (Total:20 Marks)**

### **QUESTION SIX**

- (a) (i) Explain the difference between free trade and terms of trade** (2 Marks)
  - (ii) Discuss the reasons why the government of Rwanda should restrict free trade** (8 Marks)
  - (b) Discuss the policies that can be adopted to reduce current account deficit** (6 Marks)
  - (c) Reason out the advantages and disadvantages of protectionism** (4 Marks)
- (Total:20 Marks)**

### **QUESTION SEVEN**

- (a) Explain the functions of Money** (8 Marks)
  - (b) Discuss the advanced motives for money demand in an economy** (6 Marks)
  - (c) Discuss the different functions of the Central bank of Rwanda.** (6 Marks)
- (Total:20 Marks)**

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