# CERTIFIED ACCOUNTING TECHNICIAN

## LEVEL 1 EXAMINATION

## <u>L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT</u>

## TUESDAY: 9 JUNE 2015

## <u>INSTRUCTIONS:</u>

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).

2. This examination has **seven** questions and only **five** questions are to be attempted.

3. Marks allocated to each question are shown at the end of the question.

4. Show all your workings

## QUESTION ONE

a) Explain three approaches of measuring the National income. **(3 Marks)**

b) The production and commercialization process of a certain good requires different stages as in the table below. Each product in one stage becomes an intermediate good for the next stage.

| Stages | Value (in Millions Frw |
|---|---|
| Extraction | 45 |
| Processing | 70 |
| Storage | 90 |
| Distribution | 100 |
| Retail | 105 |

With the use of value added approach, compute the Gross domestic product assuming the country produces only one product. **(4 Marks)**

c) Discuss three characteristics of a recovery phase. What is the next phase is the economy probably going into after a recovery phase? **(8 Marks)**

d) Explain the importance of investment and suggest three ways the government can boost investment. **(5 Marks)**

**(Total 20 Marks)**

## QUESTION TWO

a) Write short notes on Market Equilibrium. **(6 Marks)**

b) Using the following demand and supply functions of a commodity X, compute the equilibrium price and quantity.

$Qd = 100 - 2P$

$Qs = 40 + 4P$ **(4 Marks)**

c) Holding all ather factors constant, use diagrams to illustrate and explain the effects on the values in (b) from:

i) A fall in price of X's substitute. **(4 Marks)**

ii) A simultaneous increase in input prices and a rise in the consumer's income. **(6 Marks)**

**(Total 20 Marks)**

## QUESTION THREE

a) Define money and explain three functions of money. **( 8 Marks)**

b) Briefly explain the fractional reserve banking system in the money creation process. What is the level of change in deposits for a bank with a reserve asset ratio of 8% as a result of a new deposit of Frw 800 million? What is the credit multiplier? **(8 Marks).**

c) Explain the demand for money and three motives of demand for money as per Keynes **( 4 Marks)**

**(Total 20 Marks)**

## QUESTION FOUR

a) Define the following

   (i) Cost of production                                                                  **(2 Marks)**

   (ii) Explicit costs and implicit costs                                        **(4 Marks)**

   (iii) Breakeven point and shutdown point                          **(4 Marks)**

b) Give reasons why a firm may continue operating even if it is incurring losses      **(10 Marks)**
                                                                                                                **(Total 20 Marks)**

## QUESTION FIVE

a) The budget is a summary statement indicating the estimated amount of revenue that the government requires and hopes to raise. Outline three functions of a budget.      **(6 Marks)**

b) Discuss four reasons why the government levies taxes.                          **(8 Marks)**

c) Explain three ways that a government can use to restrict international trade.      **(6 Marks)**

                                                                                                                **(Total20 Marks)**

## QUESTION SIX

a) State the relationship between scarcity, choice and opportunity cost      **(4 Marks)**

b) State fundamental economic questions                                              **(6 Marks)**

c) Illustrate the concept of a transformation curve.                              **(4 Marks)**

d) What are the causes of the shift of the Production Possibility Frontier to the right      **(6 Marks)**

                                                                                                                **(Total 20 Marks)**

## QUESTION SEVEN

(i)      Distinguish between a quota and an embargo.                              **(5 Marks)**

(ii)     Using the information below, draw a diagram showing the effect of a tariff on a domestic economy.

| Quantity demanded &Supplied | 20 | 30 | 50 | 60 | 70 |
|---|---|---|---|---|---|
| Price per unit (Frw) | 10,000 | 15,000 | 20,000 | 15,000 | 10,000 |

The current market price is Frw 10,000

**REQUIRED:**

(i) Calculate the value of the tariff imposed.                                      **(3 Marks)**

(ii) Calculate the number of imports before the tariff was introduced.      **(3 Marks)**

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(iii) Calculate the number of imports after the tariff was introduced. **(3 Marks)**

(iv) Calculate the tax revenue received by the government after the tariff was imposed. **(3 Marks)**

(v) Calculate the value of the tariff necessary to reduce the initial trade deficit to zero. **(3 Marks)**

**(Total 20 Marks)**

# End of question paper