

**CERTIFIED ACCOUNTING TECHNICIAN**

**LEVEL 1 EXAMINATION**

**L1.5: ECONOMICS AND THE BUSINESS ENVIRONMENT**

**FRIDAY 7 DECEMBER 2012**

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

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***Attempt any five questions***

**QUESTION ONE**

1. Explain the law of demand using a diagram and state the exceptions to this law

**6.marks)**

1. Discuss using a diagram the concept of consumer surplus

**4.Marks)**

1. Discuss **three** factors that affect supply elasticity

**(6 Marks)**

1. Using a diagram, explain the effect of a tax on the price of a good.

**(4 Marks)**

**(Total 20 Marks)**

**QUESTION TWO**

Write short notes on the following:

|  |  |  |
| --- | --- | --- |
| a | Law of variable Proportions | **(4 Marks)** |
| b | Production factors | **(4 Marks)** |
| c | Free Market Economy | **(4.marks** |

d Discuss using a clearly labeled diagram the relationship between Total Product, marginal product and average product of labour

**(8 marks)**

**(Total 20 Marks)**

**QUESTION THREE**

1. What do you understand by the term “Budget deficit”? Most developing countries experience huge budget deficits. Explain some of the main causes of such deficits.

**(10 marks)**

1. Discuss **five** major methods that can be used by these countries to finance such budget deficits.

**(5marks)**

1. List **five** characteristics of the less developed countries.

**(5marks)**

**(Total 20 Marks)**

**QUESTION FOUR**

1. Public finance refers to that branch of Economic theory that studies public revenue and public expenditures. With reference to public finance, discuss the **four** main functions of the government.

**(8marks)**

1. Discuss any **six** reasons why the governments levy taxes.

**(6marks)**

1. What are Fiscal policies? Discuss the various instruments of fiscal policies that can be used by the government in its efforts to stabilize the economy and achieve desirable employment levels.

**(6marks)**

**(Total 20 marks)**

**QUESTION FIVE**

1. Give a general meaning of international trade.

**(5 marks)**

1. In the context of international trade, explain the concept of comparative advantage with specialization.

**(5marks)**

1. Define and briefly explain Balance of Payments (BOP).

**(5 marks**)

1. What benefits can be derived from engaging in international trade.

**(5marks)**

**(Total 20 marks)**

**QUESTION SIX**

1. Discuss free Market economy highlighting its advantages and disadvantages to consumers and producers.

**(5 marks)**

1. State and briefly explain the factors that may cause a fall in the supply of a good in the market.

**(5 marks**

1. The table below shows the demand and supply schedules for rice in Kimironko market in June 2012.

|  |  |  |
| --- | --- | --- |
| **Price (Frw Per Kg.)** | **Demand (Kg)** | **Supply (Kg.)** |
| 10 | 100 | 20 |
| 20 | 85 | 36 |
| 30 | 70 | 53 |
| 40 | 55 | 70 |
| 50 | 40 | 87 |
| 60 | 25 | 103 |
| 70 | 10 | 120 |

**Required:**

1. Plot the demand and supply curves and determine the equilibrium price and quantity

**(3marks)**

1. Determine the shortage of Rice at price 20Frw

**(1 mark)**

1. Determine the surplus of Rice in the market when the price was 60Frw

**(3 marks)**

1. Given the demand and supply functions:

AD=36-4P

AS=12+12 P

Calculate the equilibrium quantity and Price.

**(3 marks)**

**(Total 20 marks)**

**QUESTION SEVEN**

1. What is the meaning of the term “Price Control”

**(4 marks)**

1. List two products in Rwanda which are subject to price control.

**(1mark)**

1. Explain the circumstances under which price control is considered necessary.

**(10 marks)**

1. What are the consequences of price control measures?

**(5marks)**

**(Total 20 marks)**

**End of question paper**