
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

THURSDAY :5 DECEMBER 2013

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**

QUESTION ONE

- (a) Distinguish between own-price elasticity of demand and cross- elasticity of demand. **(10 Marks)**
- (b) Briefly discuss the factors which affect the price elasticity of demand. **(4 Marks)**
- (c) Discuss the usefulness of these parameters in management and economic policy decision-making. **(6 Marks)**

(Total: 20 Marks)

QUESTION TWO

- (a) Explain the factors of production. **(4 Marks)**
- (b) Explain the meaning of mobility of factors of production. **(3 Marks)**
- (c) To what extent are factors of production mobile? **(6 Marks)**
- (d) (i) State the aspects of significance of factor mobility **(3 Marks)**
- (ii) What policy recommendations would you suggest to reduce regional development imbalance in developing countries? **(4 Marks)**

(Total: 20 Marks)

QUESTION THREE

- (a) Differentiate between economies of scale and returns to scale **(4 Marks)**
- (b) Given a firm's demand function $Q - 90 + 2P = 0$ and its average cost function $AC = Q^2 - 8Q + 57 + 2/Q$, determine the level of output which maximizes profits. **(8 Marks)**
- (NB: only the first order condition is required).
- (c) (i) Explain why a firm in perfect competition may continue in the production of goods which it can only sell at a loss and why it cannot continue doing this indefinitely. **(4 Marks)**
- (ii) Illustrate and explain the short-run supply curve of a firm in perfect competition. **(4 Marks)**

(Total: 20 Marks)

QUESTION FOUR

- a) Define Money and outline its major functions. **(8 Marks)**
- b) Explain the various motives of holding money. **(6 Marks)**
- c) What are the likely effects of an expansionary monetary policy in an economy? **(6 Marks)**

(Total: 20 Marks)

QUESTION FIVE

- a) What is meant by the term international trade? **(4 Marks)**
- b) In the context of international trade, explain the concept of comparative advantage with specialization. **(10 Marks)**
- c) Define and briefly explain Balance of Payments (BOP). **(6 Marks)**

(Total: 20 Marks)

QUESTION SIX

- (a) (i) Based on the circular flow of income analysis, explain why marginal propensity to consumer plus marginal propensity to save equals one. **(4 Marks)**
- ii) What is the relationship between the simple multiplier and marginal propensity to consume? **3 Marks)**
- (b) Given a hypothetical consumption function of the form:

$$C = a + bY_d$$

$$\text{Where } Y_d = Y - T$$

$$\text{And } Y = \text{Income}$$

$$T = \text{Taxes and that:}$$

- Government spending and investment are exogenously determined at G and I respectively: Determine Government Spending Multiplier. **(5 Marks)**
- (c) Briefly explain the hindrances encountered in estimating national income values of a developing country. **(8 Marks)**

(Total: 20 Marks)

QUESTION SEVEN

Modern economies can be highly influenced by the way their budgets are frame worked.

Required:

- a) Clearly explain the role of budgetary management in economic development. **(8 Marks)**
- b) Briefly explain the types of budgets. **(3 Marks)**
- c) i) Define taxation. **(2 Marks)**
- (ii) Clearly explain the principle functions of taxation. **(7 Marks)**

(Total: 20 Marks)

End of question paper

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