
**CERTIFIED PUBLIC ACCOUNTANT
LEVEL 2 EXAMINATIONS**

F2.2: ECONOMICS AND THE BUSINESS ENVIRONMENT

THURSDAY: 13 JUNE 2013

INSTRUCTIONS:

- 1. Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
- This examination has **seven** questions and only **five** questions are to be attempted.
- Marks allocated to each question are shown at the end of the question.
- Show all your workings

QUESTION ONE

- 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 TWO

- 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 THREE

- a) What are the main factors of production? (4 marks)
- b) i. Define the term 'production function' (2 marks)
- ii. What determines the supply and demand of the factors of production that you have identified in (a) above? (14 marks)

(Total 20 marks)

QUESTION FOUR

- a) Clearly explain the distinction between supply, demand and equilibrium price. (8 marks)
- b) State and briefly explain any four main factors that may cause a fall in the supply of a good in the market. (4 marks)
- c) The table below shows the demand and supply schedules for a product.

Price(USD. 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:

- Plot the demand and supply curves and determine the equilibrium price and quantity. (8 marks)

(Total 20 marks)

QUESTION FIVE

- a) Using specific examples, explain 'Ceteris Paribus' as used in economics (6 marks)
- b) i) Why is the consumer said to be sovereign (4 marks)
- ii) What factors limit this consumer sovereignty? (10 marks)
- (Total 20 marks)**

QUESTION SIX

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 the term taxation. (2 marks)
- ii. Discuss the functions of taxation. (7 marks)
- (Total 20 marks)**

QUESTION SEVEN

- a) Discuss the different approaches used in the measurement of the National Income of a country. (6 marks)
- b) The Economic Advisory Council of Nyanza land has estimated that its country's marginal propensity to consume equals 0.6, investment in millions of dollars equals 2,000, Government spending 8,000; autonomous consumption 10,000 and net exports 1,000.

Required:

- i. Calculate the level of equilibrium of National Income for this economy. (5 marks)
- ii. If the currency of Nyanza land depreciated, what would likely happen to the National Income? (3 marks)
- c) What are the main problems associated with National Income Accounting in developing countries? (6 marks)
- (Total 20 marks)**

End of question paper

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