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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.2: ECONOMICS AND THE BUSINESS  
ENVIRONMENT**

**DATE: THURSDAY 24, AUGUST 2023**

**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.**
- 5. The question paper should not be taken out of the examination room.**

**QUESTION ONE**

- a) (i) Discuss any six characteristics of money. (6 Marks)
- (ii) Explain the difference between liquid assets and near money. (2 Marks)
- b) Explain the three motives why people demand for money in reference to Keynes' liquidity preference theory of money. (6 Marks)
- c) Give six reasons why the Central Bank of Rwanda must buy foreign assets in the foreign exchange market. (6 Marks)

**(Total: 20 Marks)**

**QUESTION TWO**

- a) (i) Distinguish between cross elasticity of demand and income elasticity of demand. (2 Marks)
- (ii) Discuss price elasticity of demand. (4 Marks)
- b) Describe and illustrate graphically the differences between change in quantity supplied and change in supply. (10 Marks)
- c) Explain any four factors affecting determination of price. (4 Marks)

**(Total: 20 Marks)**

**QUESTION THREE**

- a) (i) Discuss with examples causes of demand-pull inflation. (6 Marks)
- (ii) What are four causes of cost push inflation? (4 Marks)
- b) Explain any three effects of inflation on the economy. (6 Marks)
- c) Discuss two anti-inflationary measures used to curb inflation in an economy. (4 Marks)

**(Total: 20 Marks)**

**QUESTION FOUR**

- a) With aid of a well labelled graph, differentiate a fixed exchange rate from a free-floating exchange rate. (6 Marks)
- b) Using a graphical illustration, write short notes on the trade creation and trade diversion effects of a customs union. (6 Marks)
- c) Given the price index of export (Px) and price index of imports (Pm) for country A on the table below:

Year	2019	2020	2021	2022
Px	104	96	94	106
Pm	96	100	98	102

**Required:**

**Calculate the terms of trade and give 2 comments on the results for country A of the above four years (8 Marks)**

**(Total: 20 Marks)**

### QUESTION FIVE

Given that bank A had initial deposit of FRW 10,000,000 and the required cash ratio was 20%.

- Explain and show how bank A creates more credit if two more customers applied for loan.** (10 Marks)
  - Determine the total credit that will be created from the initial deposit.** (2 Marks)
  - Explain four factors limiting credit creation in Rwanda.** (8 Marks)
- (Total: 20 Marks)**

### QUESTION SIX

- Explain and illustrate graphically the phases of business cycles that occur in an economic activity.** (10 Marks)
  - Discuss two government policies used to control/manage business cycles.** (4 Marks)
  - Explain and illustrate graphically the Keynesian theory of business cycles.** (6 Marks)
- (Total: 20 Marks)**

### QUESTION SEVEN

Consider the following table;

Country	Resources	Maize	Sugar
P	5000	20,000 tons	15,000 tons
Q	5000	15,000 Tons	5,000 tons

- (i) Calculate the opportunity cost ratios for both country P and Q.** (6 Marks)
  - (ii) Determine the commodity in which a country P and Q should specialize.** (2 Marks)
  - Distinguish between the principles of comparative advantage and absolute advantage.** (2 Marks)
  - Explain 5 limitations of the law of comparative advantage as a basis for international trade.** (10 Marks)
- (Total: 20 Marks)**

**End of question paper**

