CERTIFIED PUBLIC ACCOUNTANT

FOUNDATION LEVEL 2 EXAMINATIONS

F2.2: ECONOMICS AND BUSINESS ENVIRONMENT

DATE: THUESDAY 27, FEBRUARY 2025

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) The Government of Rwanda has taken extensive policies to expand its export to improve its balance of payments position. During the year 2023, Rwanda has exported goods to the United Arab Emirates estimated at FRW 49 billion. The Government of Rwanda has imported a total purchase of USD 44.5 million. The exchange rate at the end of the year was 1USD = 1,260.

Required:

i) **Calculate the net export between two countries and interpret Balance of payment position.** (3 Marks)

ii) **Explain two negative effects of exchange rate on balance of payment in Rwanda.** (4 Marks)

b) The Government of Rwanda has been currently dominating the global market through its extensive policies which have been adopted in recent decades. The Government's exports are mostly dominated by exporting raw materials including coffee, tea and raw minerals due to underdeveloped systems and technologies relating to manufacturing and imports finished products.

Required:

i) With respect to Rwanda's ability in international trade, **explain the current practice of the government in relation to imports and exports.** (2 Marks)

ii) **Explain the factors influencing intra-industry trade within the countries in international trade.** (3 Marks)

c) Over the past years, firms have been operating under the key objective of profit maximisation. Recently, alternative theories developed by various scientists have highlighted additional key objectives that firms must take into consideration.

Required:

Using a diagram, **explain how the company must achieve the alternative objectives other than profit maximization.** (8 Marks)

(Total: 20 Marks)

QUESTION TWO

a) Alpha Manufactures Ltd is a company engaged in the production of food products which are sold and priced in kilograms. During the year, the following was referred to as the company's extract of the total cost spent during the production process. $C = 10x + 20$. During the production, the company add mark-up to the finished products and the price is determined as follows: $P = 100 - 2x$.

Required:

Calculate the profit maximizing output and the total maximum profit of Alpha Manufacturers Ltd. (7 Marks)

b) Agaciro Hygiene Ltd has been operating in Rwanda over 20 years as the only company producing and selling hygiene materials within the Western Province. The company has obtained full exclusive rights from the Government of Rwanda for its practice due to the policy to remain in control over quality of the hygiene materials such as toilet papers, soaps, cleaning detergents and other hygiene materials. Agaciro Hygiene Ltd is currently setting the prices for its customers within the region basing on their economic status and their willingness to buy the company's products.

Required:

i) Discuss four factors that could facilitate Agaciro Hygiene Ltd to remain the sole producer and seller of hygiene materials within the Western province. (4 Marks)

ii) After explaining the concept of price discrimination, describe three conditions which might influence Agaciro Hygiene Ltd to apply price discrimination on its customers. (3 Marks)

c) Kima Agribusiness Ltd is a company engaged in producing and manufacturing juices from a range of fruits which are imported from Ghana and Zambia. Currently, the management of Kima agribusiness Ltd has recently assessed the costs spent on the importation of the fruits and they realized that they are too high which decreases the company's gross profit. To respond to that increment of the costs for importing fruits, the management is planning to open a new business segment which will be engaged in planting fruits that will be considered as raw materials for the company to produce juices with the purpose of increasing the company's access to low-cost inputs and boosting the company's profit.

Required:

i) As far as diversification is concerned, **describe the nature of the market in which Kima Agribusiness Ltd intends to enter and identify two advantages this market will offer to the company.** (3 Marks)

ii) Referring to the scenario of Kima Agribusiness Ltd, **explain major tests which management should consider before establishing the new business segment.** (3 Marks)

(Total: 20 Marks)

QUESTION THREE

a) You have been hired as an economics consultant to provide recommendations in the context of assessing the effect of Purchasing Power Parity between USD and FRW. Currently, 1USD=FRW 1,000 and the price is relatively equally in USD market based on spot exchange rate. With an effect of shortage in raw materials in Rwanda, inflation has increased to 100% and doubled the price levels Rwandan coffee from FRW 1,000 to FRW 2,000.

Required:

With the aid of graphical illustration, **indicate the effect of increased prices on the local market for the demand of USD currency in Rwanda.** (6 Marks)

b) During the year 2022, the government of Rwanda has made a population census in order to have suitable planning regarding the proper allocation of resources. One of the key reasons is the proper allocation of income per capita which is measured at the end of each year and considers the total value of goods produced within the economy.

Required:

i) Explain two importance of the national income statistics to the government of Rwanda. (2 Marks)
ii) Describe the negative defects which can be encountered in measuring national income using the output approach in relation to the nature of goods or services accounted. (3 Marks)

c) In the year 2023, we have noticed the general and uncontrolled increase in price levels for food products mainly for rice, Irish potatoes and maize flour. Due to a persistent increase in the prices, the government has intervened in pricing and exempting value added taxes for some goods so as to regulate the country's economy.

Required:

i) Explain the meaning of the inflationary gap. (1 Mark)
ii) Explain three strategies which can be adopted by the government to close inflationary gap within the country. (3 Marks)

d) Agaciro Investment Company (AGC) Ltd is a company engaged in real estate's industry. The company is owned by two shareholders namely Kayumba and Masabo. The company is currently having a project of constructing a shopping mall in Kigali city with a total investment of FRW 150,000,000. These funds will be borrowed from a bank with an agreement of 6 years' repayments, as shareholders are expecting the project to generate a monthly rental income of FRW 25,000,000 after its completion. The company provides an annual performance bonus to the management based on the percentage of the project completion.

Nyangezi, who has been a Chief Operations officer of Rurembo Estates Company Ltd for a period of 5 years was appointed as the Chief executive officer at Agaciro Investment Ltd. With his experience in management of real estates, he has suggested that project will be able to generate full investment returns within period of 5 years as he suggested the annual rental income to be FRW 30,000,000 effectively from date of completion. Shareholders have estimated 1 year after completion.

Required:

Explain three causes of the difference in the point of view of shareholders and Nyangezi regarding investment of Agaciro investment Ltd. (5 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) During the year 2023, Rwanda's market was significantly impacted by an imbalance between supply and demand forces. According to a pilot survey conducted by the Ministry of Industry and Trade, there was a notable increase in the demand for foodstuffs, prompting the Rwandan government to intervene by setting prices on certain commodities and implementing measures affecting production facilitation and tax policies."

Required:

i) Using the graph, **explain how the concept of excess demand and excess supply may happen within the economy.** (6 Marks)

ii) Explain Two causes of excess demand in Rwandan local markets. (4 Marks)

b) **Explain five practical importance of consumer surplus within the economy.** (5 Marks)

c) Best Drink Company Plc is a company specialized in the production of soft drinks in Rwanda for a period of more than 15 years. The company has initially hired skilled workers from competitive companies within the same industry. Best Drink Company Plc has signed long term contracts of 5 years with the suppliers of key ingredients used in production. Since its inception, the company has noted a remarkable growth of its market share from 26% to 56% of the total market that deals with soft drinks in Rwanda. As result of aggressive marketing done by the company through television and newspapers, the company has 5 key distributers in each province of Rwanda for easy access of the company products to the customers.

Required:

Explain five factors which have facilitated Best Drink company Plc to enjoy the economies of scale. (5 Marks)

(Total:20 Marks)

QUESTION FIVE

a) Perfect competitive markets are currently growing with large extent due to government policies of allowing each firms to create innovation within their operations.

i) With the aid of graphical illustration, **explain the short run of profit maximization under perfect competition.** (6 Marks)

ii) Explain two disadvantages of perfect competition (2 Marks)

b) Umusaruro finance Plc is a commercial bank which has been recently licensed by the National Bank of Rwanda (NBR). In relation to regulation of lending procedures in commercial banks, a minimum Reserve Asset Ratio of 15% is retained by the bank on the total deposit held in the bank. During the year ended 31 December 2023, there was an increase in total cash deposit of FRW 180,000 million.

Required:

i) Calculate the credit multiplier and total deposit liabilities resulting from the deposits made. (5 Marks)

ii) Explain three conflicting aims of commercial banks. (3 Marks)

iii) Describe two limitations encountered by commercial banks during the credit creation process. (4 Marks)

(Total: 20 Marks)

QUESTION SIX

a) Kalinda receives a total income of FRW 6,000,000 as his monthly salary. Total deductions of FRW 1,345,000 are automatically deducted from the salary and declared to their respective government agencies. Kalinda spends his income to satisfy his family necessities and an amount of FRW 1,450,000 is taken to his voluntary saving account. With the recent restructuring from his employer, Kalinda's salary was increased by 20% as a non-taxable bonus which made him to increase his voluntary saving by FRW 280,000.

Required:

Calculate the Marginal Propensity to Consume and Marginal Propensity to Save for Kalinda. (6 Marks)

b) Nyakabuye region is mostly characterised with fertile land which has led to a high production of sweet potatoes, the produce is sold in Nyakabuye market and the surrounding regions. From the survey made on the prices of sweet potatoes in the market revealed that when prices were FRW 480 per Kilogram in the period of harvesting, the available quantities were 45,000 Kilograms. Recently, due to an outbreak of pandemic diseases productivity has been greatly affected, the prices have increased by 21% which has equally led to an increase in quantity at market to 48,780 Kilograms.

Required:

i) Calculate and interpret the price elasticity of supply within Nyakabuye Market. (4 Marks)

ii) Explain how price elasticity of supply affects the determination of indirect taxes for normal goods. (4 Marks)

c) With relevant examples, **Explain two main effects of the price changes on consumer choices within the market.** (6 Marks)

(Total: 20 Marks)

QUESTION SEVEN

a) By using relevant examples, **differentiate primary and secondary level of production** (4 Marks)

b) **Explain two additional objectives of the firm other than profit maximization within the current business environment.** (4 Marks)

c) Sekamana is an employee specialized in marketing. He is currently employed in a local company dealing with advertising business and he is currently eager to join an international organization and he is available to work at FRW 1,200,000 for a period of 48 hours as per the offer letter provided by the employer. Due to the recent trends in wage legislation, the salary for this position has been set at FRW 1,500,000 effective immediately upon employment

Required:

i) Using relevant illustration, **present and interpret the economic rent that will be obtained by Sekamana as result of joining the new employment in the international marketing company.** (5 Marks)

ii) Explain the term Quasi- Rent as used in factors of production. (2 Marks)

d) Within the economy of Rwanda, there was a notable increase in the demand for liquid money as result of growing economic activities. According to the survey that was made by the Central Bank, the total amount in circulation and in the hands of the population was FRW 90,000,000. The annual quantity of final goods purchased within the country has averaged to 430,000 tones. It is required to take 230 times of the money circulated to return to the same hands.

Required:

i) Calculate the price level within the economy. (3 Marks)

ii) Explain two criticism of the quantity theory of money. (2 Marks)

(Total: 20 Marks)

End of question paper

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