



ICPAR  
Unlimited possibilities

---

---

## **CERTIFIED PUBLIC ACCOUNTANT FOUNDATION LEVEL 2 EXAMINATIONS**

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

**DATE: THURSDAY 29, MAY 2025**

---

---

#### **INSTRUCTIONS:**

1. Time Allowed: **3 hours 15 minutes** (15 minutes reading and 3 hours for 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 each question.
4. Show all your workings where applicable.
5. The question paper should not be taken out of the examination room.



## QUESTION ONE

a) The production possibility frontier (PPF) is a graphical representation of the trade-offs a producer or an economy faces when trying to minimize the production of two goods or services.

**Required:**

i) Describe FOUR uses of the opportunity cost concept under the economic units. (4 Marks)

ii) Examine the relationship between inflation and unemployment in Rwanda. (3 Marks)

b) At the peak phase of business cycle, the economic activity reaches its highest point and the expansion phase comes to an end. Unemployment rates are typically low and inflationary pressures may begin to emerge.

**Required:**

i) Describe the characteristics of the recession phase of a business cycle. (4 Marks)

ii) Explain the negative effects of business cycles on the economy. (4 Marks)

iii) Evaluate the contrast of a floatation exchange rate and fixed exchange rate. (2 Marks)

iv) Evaluate the demerits of adaptation of a floating exchange rate system on an economy (3 Marks)

**(Total: 20 Marks)**

## QUESTION TWO

International trade refers to the buying and selling of commodities between or among nations. The trade in goods is called visible trade while the trade in service is called invisible trade. The multi-lateral trade for the past years has been accelerated by the specialization which results into surplus commodities and the need for exchange. Given the table below showing two countries production using one unit of labour:

Country	Coffee production (tons)	Cotton (meters)
A	10,000	20,000
B	2,000	10,000

**Required:**

a) Define the laws of comparative and absolute advantage, and explain how they differ by applying the data given for Country A and Country B. (10 Marks)

b) Outline five criticisms of the law of comparative advantage. (10 Marks)

**(Total: 20 Marks)**



### QUESTION THREE

a) In practice, no economy is 100% closed or fully open, but economies are usually classified based on how freely they engage in international activities. An open economy and a closed economy are two contrasting economic systems based on the degree of interaction with the rest of the world.

**Required:**

**Differentiate between a closed and an open economy. (4 Marks)**

**b) Outline four assumptions of the theory of comparative advantage. (4 Marks)**

**c) Discuss the following concepts: consumption, investment, government spending in relation to Keynesian theory of income and employment. (8 Marks)**

**d) Examine the effects of a simultaneous increase in the income of the consumer and increase in the fuel prices. (4 Marks)**

**(Total: 20 Marks)**

### QUESTION FOUR

**a) Examine the effects of paradox of thrift as the graphical representation of Keynesian Cross Model. (4 Marks)**

**b) Income per capita is a crucial economic indicator that measures the average income earned by individuals residing in a specific region or country. It is calculated by dividing the total income of a region or country by the total population. The resulting figure provides insights into the standard of living and economic well being of the residents in that area.**

**Required:**

**Why income per capita is not most accurate or comprehensive indicator of a nation's economic progress. (10 Marks)**

**c) Evaluate the significances of the post hoc fallacy in economics. (6 Marks)**

**(Total: 20 Marks)**

### QUESTION FIVE

**a) Foreign Direct Investment in an economy plays a crucial role in stimulating growth, enhancing productivity and integrating a country into the global market. However, the citizens of a country named X have raised concern over the increased rate of foreign direct investment in their country.**

**Required:**

**Assess FOUR cases in favor of and FOUR cases against foreign direct investment in an economy. (8 Marks)**



b) The monetary value varies inversely with the level of prices in an economy.

**Required:**

With reference to the above statement, **justify FOUR positive economic effects of a prolonged fall in the value of money in an economy.** ( 8 Marks)

**c) Summarise FOUR limitations of consumer sovereignty in an economy.** (4Marks)  
**(Total: 20 Marks)**

**QUESTION SIX**

Collaboration often leads to more efficient use of time and resources. It is an indelible process to attain productivity and efficiency. When people work together, it is when countries work together they can distribute tasks and responsibilities, and the countries can distribute tasks and resources. Respectively, ensuring that each person is focused on their area of expertise, identically countries, this specialization allows for greater productivity, as individuals can dedicate their full attention to their assigned tasks, the same for countries rather than trying to juggle multiple responsibilities simultaneously. This is the one way East Africa Community went into existence.

**Required:**

**a) Discuss the applicability of inter-industry and intra industry trade** (10 Marks)

**b) Examine the costs of economic integration like the one Rwanda belongs which is the East African Community.** (6 Marks)

**c) Discuss the process of trade creation.** (4 Marks)  
**(Total: 20 Marks)**

**QUESTION SEVEN**

Nyamirambo Transport Union Ltd (NTU) is a consortium of public transport buses owners who act together for the purposes of controlling the public transport price and the market as a whole. All buses in the union are branded NTU and the transport fee countrywide is determined by NTU. Being the only licensed transport association, all new transporters who act outside the union face penalties. The following information was provided by the company's Chief Financial Officer.

$$TR = ab^x \quad TC = 1200 + 0.125x^2$$

Where:

TR and TC are the total revenue and total cost in thousand Rwandan francs respectively, A and B are constants while x represents the number of tickets sold. The following actual sales have been given:

Tickets	1	2	3	4	5	6
Total Revenue FRW "000"	16	23.5	32.5	46	66	95

**a) Determine the value of constants "a" and "b" above, and formulate a new Total Revenue function using the normal equation.** (14 Marks)



- b) Determine the amount of profit to be earned by selling 17 tickets. (2 Marks)**
- c) Outline any four characteristics for each of the perfect competition market and monopolistic competition market. (4 Marks)**
- (Total: 20 Marks)**

**End of Question Paper**

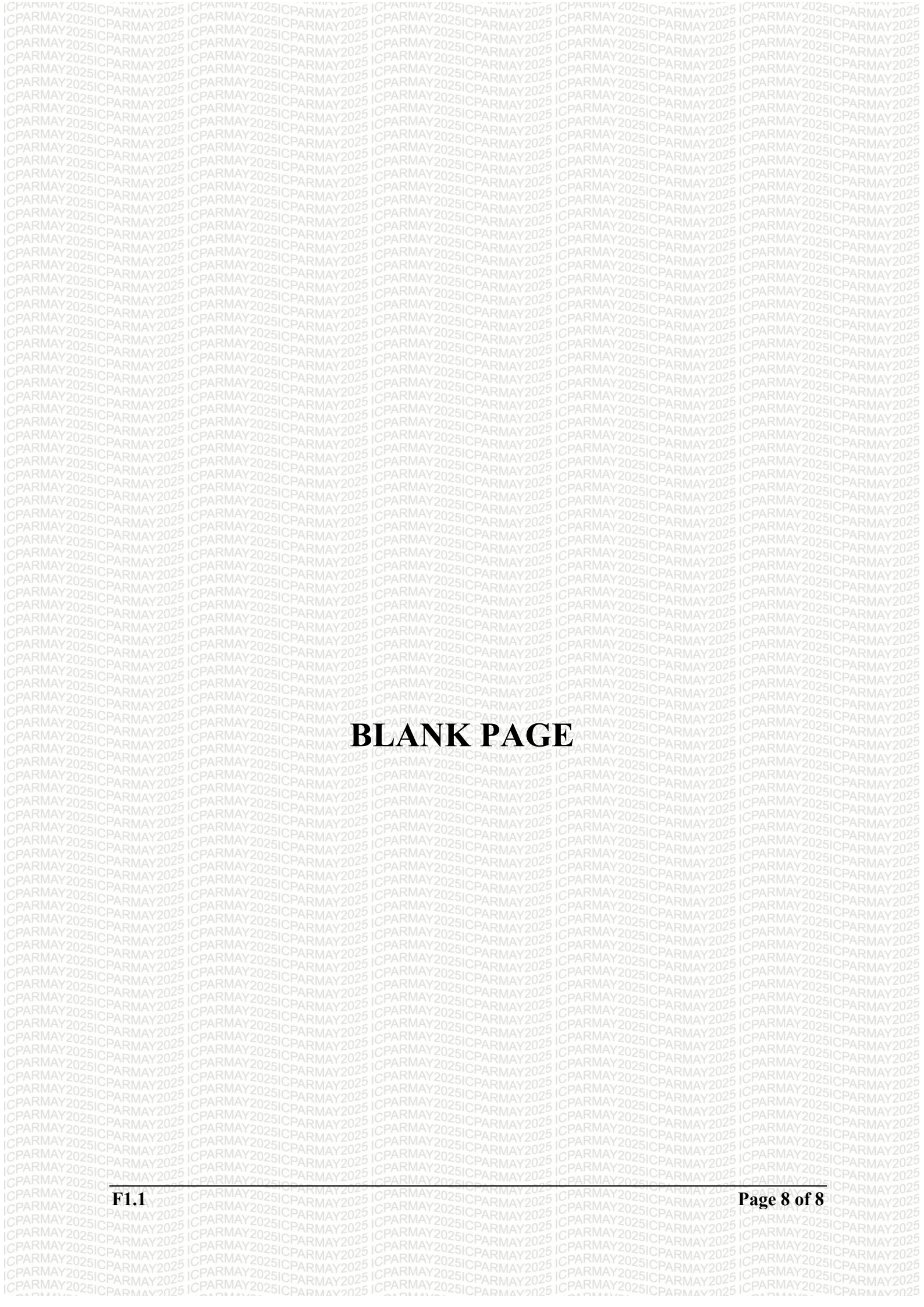


BLANK PAGE



# BLANK PAGE





**BLANK PAGE**