CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.2: ECONOMICS AND BUSINESS ENVIRONMENT
DATE: THURSDAY 27, NOVEMBER 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) Urugezi Multi-Development Company (UMDC) is a small firm engaged in wetland management in the Western Land Valley. It has seven permanent employees whose monthly salaries are:

Employee	Monthly salary (FRW)
Managing Director	1,000,000
Manager, Development	600,000
Manager, Marketing	450,000
Project Manager	550,000
Finance Manager	400,000
Office Manager	300,000
Receptionist	200,000

UMDC leases a building for FRW 200,000 per month. The cost of supplies, utilities, and leased equipment is FRW 300,000 per month. UMDC builds one style of house in the valley. For each house, land costs FRW ,5500,000; lumber, supplies, and other materials cost FRW 2,800,000; and direct labour totals FRW 2,000,000. UMDC has one sales representative who earns a commission of FRW 200,000 per house sold. The selling price per house is FRW 11,500,000.

Required:

i) **Identify all costs and determine the marginal revenue and marginal cost per house.**
(3 Marks)

ii) **Derive the monthly profit function P(X), where X is the number of houses built and sold per month.** (3 Marks)

iii) **Find the monthly breakeven point (In house)** (2 Marks)

iv) **Calculate the monthly profit if 12 houses are built and sold** (2 Marks)

b) **Explain the properties of an isoquant** (6 Marks)

c) **Examine the causes of failure of the Structural Adjustment Program (SAP) in Rwanda** (4 Marks)

(Total: 20 Marks)

QUESTION TWO

In recent decades, unemployment has remained one of the most persistent socio-economic challenges in developing countries. The problem worsened after the COVID-19 pandemic, which severely disrupted production, trade, and labour markets. Many enterprises closed, informal workers lost income, and millions of people especially youth and women were pushed into economic vulnerability.

As economies gradually reopened, there has been increasing pressure on the labour market to absorb returning workers and new entrants. However, despite various recovery initiatives,

labour underutilization including underemployment, disguised unemployment, and low productivity continues to affect most developing economies. This challenge has been compounded by limited industrialization, rapid population growth, inadequate education systems, and weak economic planning. Policymakers and international development partners are therefore seeking long-term, sustainable solutions to address this structural problem and promote inclusive economic growth.

Required:

a) **Explain any SIX factors contributing to the persistently high unemployment rates in developing countries.** (12 Marks)

b) **Outline EIGHT recommendations that governments and stakeholders can implement to reduce unemployment in developing economies**. (8 Marks)

(Total: 20 Marks)

QUESTION THREE

a) One of the major challenges the Government of Rwanda has been addressing is identifying which market structure should be encouraged to best support a developing economy. The government seeks to promote a structure that can enhance production efficiency, ensure optimal resource allocation, and ultimately raise the overall level of economic welfare. To explore this issue, the government commissioned a team of economics professors from the University of Rwanda to prepare a concept note on the matter. The team's report concluded that a perfectly competitive market could be more beneficial than other market structures, as in the long-run equilibrium under perfect competition, several desirable outcomes such as productive efficiency, allocative efficiency, and consumer welfare are achieved.

However, the study also noted that perfect competition can lead to instability in periods of demand fluctuations, since prices and outputs tend to adjust continuously in response to market forces.

Required:

i) From a traditional microeconomic perspective, **list THREE outcomes that can be achieved in a perfectly competitive market, and explain how firms should respond during periods of fluctuating prices.** (5 Marks)

ii) Based on the above scenario, if there are doubts about the **real-world efficiency** of perfect competition, **explain how other market structures namely monopolistic competition and oligopoly compare in promoting efficiency and stability**. (5 Marks)

b) Mukamana is a young, talented lady from Nyamasheke District who has always had a strong interest in sports, particularly netball. During local competitions, she consistently scored the highest points among her peers. However, many of her colleagues in the same village did not consider sports as a viable career, believing it to be merely a leisure activity rather than a potential source of income.

After one of the competitions, a prominent coach recognized her exceptional talent and offered her a professional contract in the United States of America, with a monthly salary of USD 5,000. This opportunity inspired many of her peers, changing their perception of sports especially netball from a pastime into a profession that could generate substantial income and improve livelihoods.

Required:

From an economic point of view, **use a well-labeled diagram to illustrate the concept of economic rent and explain how it affects wage determination in the labour market.**

(10 Marks)

(Total: 20 Marks)

QUESTION FOUR

a) Mukarange Juice Producers Ltd (MJP Ltd) is a large company that has, for many years, dominated the fruit juice production industry in the Eastern Province of Rwanda. The firm sources most of its fruits locally and has built strong distribution networks with supermarkets, schools, and hotels in the region. Because of its exclusive government operating license, no other firm has been allowed to produce or sell similar juice products within the province.

As a result, MJP Ltd enjoys significant monopoly power and has the ability to influence prices and restrict market entry. Consumers in the area have limited choice and often must pay the price determined by the company. Although this has allowed MJP Ltd to earn high profits and maintain stable operations, concerns have been raised about allocative inefficiency, higher consumer prices, and welfare loss. From a theoretical perspective, the concept of contestable markets suggests that even in monopolistic conditions, firms may behave competitively if there are no major barriers to entry and exit, and if potential competitors can freely challenge the incumbent. However, in the case of MJP Ltd, the barriers to entry such as exclusive licensing, high capital costs, and control over distribution channels make it difficult for new entrants to compete.

Economists often emphasize that market structure affects firm conduct, which in turn determines market performance. Hence, when a monopoly like MJP Ltd sets prices above the competitive level, the quantity sold decreases, creating a deadweight loss a situation where total societal welfare (both producer and consumer surplus) is not maximized. In addition, some industries in Rwanda, such as electricity, transport, and telecommunications, are price-regulated by the government to protect consumers from monopolistic pricing. However, these regulations often come with their own administrative and market challenges, including inefficiency, corruption, and reduced incentives for innovation

Required:

Using a well-labeled diagram, **explain how a deadweight loss could occur in a firm such as Mukarange Juice Producers Ltd and illustrate how it appears on the graph**.   (5 Marks)

b) Given the following functions: Qd=1000−0.5P and Qs=200+0.1P

where Qd is quantity demanded, Qs is quantity supplied, and P is the price, **determine the equilibrium price and quantity, and calculate the corresponding total revenue**

(10 Marks)

c)**In some Rwandan industries, market prices are regulated by the government. List and discuss THREE examples of such markets, outlining the key challenges faced in each**. (5 Marks)

(Total: 20 Marks)

QUESTION FIVE

Assume Aline, a consumer living in Kayonza District, earns a monthly income of FRW 32,000 which she spends entirely on two goods, fruit juice (good X) and yoghurt (good Y). Initially, the price of fruit juice (Px) is FRW 2 per kilogram, and the price of yoghurt (Py) is FRW 4 per kilogram. Aline allocates her limited income between these two goods to maximize satisfaction while staying within her budget. Like many consumers, Aline faces changes in market prices from time to time. For example, when fruit juice prices rise due to a poor mango harvest, her purchasing power falls. This creates a new budget constraint, forcing her to adjust consumption choices.

Understanding how changes in income or prices affect consumption helps economists and businesses analyze consumer behavior, forecast demand, and design pricing policies. Similarly, in production, firms face decisions about whether to continue operating or shut down in the short run, depending on whether they can cover variable costs. This illustrates how microeconomic theory applies to both consumers and producers in the market system.

Required:

a) **Determine the budget line equation for Aline and illustrate it graphically, showing the intercepts** (4 Marks)

b) **Show how the new budget line will appear when the price of fruit juice (Px) increases by 5%, and explain its economic effect.** (3 Marks)

c) **Calculate the income required for the consumer to purchase 30 units of fruit juice (X) and 40 units of yoghurt (Y) at the initial prices**. (3 Marks)

d) **Determine the percentage change in income necessary when the quantity of fruit juice (X) increases by 25%, keeping prices constant.** (4 Marks)

e) Using a well-labeled diagram, **illustrate and explain the shutdown point for a firm in the short run, highlighting the relationship between price, average variable cost, and total cost**. (6 Marks)

(Total: 20 Marks)

QUESTION SIX

The National Institute of Statistics of Rwanda (NISR) recently released a quarterly report on the country's labour market and price developments. According to the report, the unemployment rate stands at 4.3%, and the civilian labour force is estimated at 122 million people. Policymakers are concerned about possible increases in unemployment if economic growth slows down. At the same time, inflationary pressures are building up. A year ago, the Consumer Price Index (CPI) was 178, and it has now risen to 185, raising questions about the stability of prices and the purchasing power of households.

To assess the macroeconomic situation, you are required to perform several calculations and provide explanations relevant to labour market and price level analysis.

Required:

a) If the unemployment rate is 4.3% and the civilian labour force **is** 122 million**, calculate the number of unemployed persons.** (4 Marks)

b) **Determine how many additional people would be unemployed if the unemployment rate increased to 5.3%.** (4 Marks)

c) **If one year ago the Consumer Price Index (CPI) was 178**, **and today it is 185**, **calculate the inflation rate**. (2 Marks)

d) **List and explain five major causes of inflation in an economy, giving practical examples where possible** (10 Marks)

(Total: 20 Marks)

QUESTION SEVEN

International trade involves the exchange of goods and services between nations. Trade in tangible goods such as coffee, tea, and textiles is known as visible trade, while trade in intangible services such as tourism, transport, and banking is referred to as invisible trade. Over the past decades, multilateral trade has expanded rapidly due to specialization and the desire of nations to exchange surplus production for goods they cannot efficiently produce themselves. This specialization allows countries to benefit from differences in resources, technology, and productivity, giving rise to the principle of comparative advantage.

The following table shows the output per unit of labour in two countries, Country A and Country B, producing coffee and cotton:

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

Required:

a) State the Law of Comparative Advantage and the Law of Absolute Advantage, and distinguish between the two by applying them to the data for **Country A** and **Country B** above
                                                                                                (10 Marks)

b) Outline and explain FIVE main criticisms of the Law of Comparative Advantage in real-world trade
                                                                                                (10 Marks)

                                                                                (Total: 20 Marks)

End of Question Paper

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