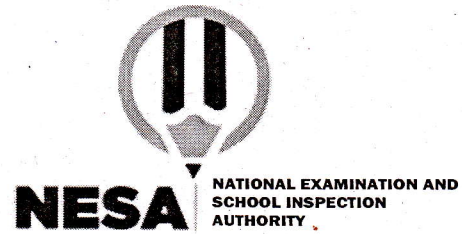


ECONOMICS I

017

22/07/2021 8h30 AM -11h30 AM



ADVANCED LEVEL NATIONAL EXAMINATIONS, 2020-2021

SUBJECT: ECONOMICS I

PAPER I: BASIC PRINCIPLES OF ECONOMICS

COMBINATIONS:

- HISTORY-ECONOMICS- GEOGRAPHY (**HEG**)
- HISTORY-ECONOMICS- LITERATURE (**HEL**)
- MATHEMATICS -ECONOMICS- GEOGRAPHY (**MEG**)
- LITERATURE-ECONOMICS- GEOGRAPHY (**LEG**)
- MATHEMATICS-COMPUTER SCIENCE-ECONOMICS (**MCE**)

DURATION: 3 HOURS

INSTRUCTIONS:

- 1) Write your names and index number on your answer booklet as they appear on your registration form and **DO NOT** write your names and index number on additional answer sheets if provided.
- 2) Do not open this question paper until you are told to do so.
- 3) This paper consists of **Two** sections: **A** and **B**.
SECTION A: Attempt all questions. (55 marks)
SECTION B: Attempt any **THREE** questions. (45 marks)
- 4) Candidates must give explanations with relevant examples on essay type of questions.
- 5) Use only a **blue** or **black** pen.

SECTION A: ATTEMPT ALL QUESTIONS (55 marks)

- 1) Giving relevant examples, explain how the study of basic principles of economics is useful to you in your daily life. **(4 marks)**

- 2) A consumer has total money income of 250\$ to be spent on two goods X and Y with prices of 25\$ and 10\$ per unit respectively. On the basis of the information given, answer the following questions:
 - a) Give the equation of the budget line for the consumer. **(1 mark)**
 - b) What is the value of the slope of the budget line? **(1 mark)**
 - c) How many units can the consumer buy if she/he has to spend all her/his money income on good X? **(1 mark)**
 - d) How does the budget line change if there is a fall in price of good Y? **(1 mark)**

- 3)
 - a) Suppose you were a business person and a producer of different products and there is need for more revenue. What product would you choose to supply; the one with high price elasticity of demand or one with inelastic demand? Briefly explain your choice. **(2 marks)**
 - b) Suppose you were a businessman or woman, what would your rational decisions be in the following situations and why?
 - i) The price was increased and you have to decide to increase or reduce the wages of your workers while the demand for your products is inelastic. **(2 marks)**
 - ii) You are the only supplier of product A. You have two categories of consumers: students and workers. The demand of the product by students is elastic and the demand for the product by workers is inelastic. **(2 marks)**

- 4) Capital as a factor of production plays a big role in production process and in development process. Explain its role in:
 - a) Employment creation. **(2 marks)**
 - b) Promotion of technological progress. **(2 marks)**

- 5) Most firms in Rwanda are concentrated in Kigali City especially in the Industrial free zone of Masoro in Gasabo District. Do you think this localization of firms is useful for households in Rwanda? **(5 marks)**

- 6) Explain the disadvantages of a perfect competition market linked to the following features:
 - a) Homogeneity of products **(2 marks)**
 - b) Perfectly elastic demand **(2 marks)**
 - c) Free exit of firms **(2 marks)**

- 7) Small scale industries are needed in developing countries as a strategy of development. To what extent do you agree with this statement? Give at least 5 different reasons to support your answer. **(5 marks)**

- 8) In the table below are proposed economic policies or phenomenon in column A and alternative measures to achieve them or reaction to them in column B. Match each policy or phenomenon with its appropriate alternative measure to achieve it or a reaction to it and justify your choice. **(6 marks)**

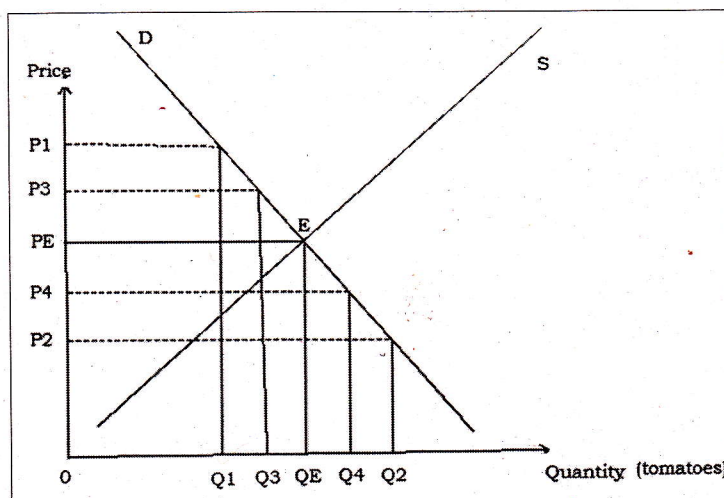
SECTION A	SECTION B
1. To encourage investment	a. Businesswomen or men increase their investment.
2. To increase government expenditures	b. Government provides subsidies
3. Expectation of economic boom.	c. Government increases taxes

- 9) The Governor of the central bank of my country takes a decision to lower interest rate as required by the Minister of finance to stimulate economic growth. As an economist, how do you justify the usefulness of this decision to achieve this macroeconomic government policy? **(4 marks)**
- 10) Currency depreciation encourages investment in the country where currency is depreciated. Do you agree with this statement? Give at least three reasons to support it. **(6 marks)**
- 11) Briefly explain two priority areas identified to spearhead the rural development thematic area addressed in EDPRS2. **(5 marks)**

SECTION B: ATTEMPT ANY THREE QUESTIONS (45 marks)

- 12) The following diagram shows the convergent Cobweb theorem in the agricultural sector; it shows the variation of demand and supply for tomatoes in our village at different prices and in four periods. Study it and answer the questions that follow.
- (a) Basing on your knowledge of the Cobweb theorem, describe the situation of demand and supply of tomatoes in our village. **(7 marks)**

(b) Suppose you were in charge of agriculture in our sector. Suggest possible solutions to tomatoes price fluctuations in our village.



(8 marks)

13) The table below represents values of economic transactions for a hypothetical economy with figures in terms of millions of United States dollars.

- Wages and salaries = 100
- Income from rent = 8
- Net interest = 12
- Profits of corporations = 16
- Indirect taxes = 14
- Subsidies = 6
- Depreciation = 16
- Net income from abroad = -8.

a) From the data above, derive the following:

- (i) Gross domestic product at market price. **(1 mark)**
- (ii) Net domestic product. **(1 mark)**
- (iii) Net domestic product at factor cost. **(1 mark)**
- (iv) Gross national product. **(1 mark)**
- (v) National income. **(1 mark)**

b) Discuss the importance of having National income statistics in an economy.

(10 marks)

14) Two economics students A and B are discussing government support in private sector activities in case of a perfect competition market. Both students try to convince each other.

A is against this support and B is for it. As an economist, who understands the role of Government in private sector activities, prepare a document containing different arguments supporting A and B in their points of view and also play a mediation role.

(15 marks)

15) Discuss the advantages and disadvantages of a floating exchange rate system.

(15 marks)

16 a) A country P is a developing country in Africa. It has chosen the development of agriculture as a strategy of economic development. Explain what could be the hindering problems against the process of economic development using this strategy.

(8 marks)

b) What do you think are the problems that hinder mechanization of agriculture in Rwanda?

(7 marks)