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## Fundamentals of Business Economics

Cima BA1

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**QUESTION NO: 1**

Vencia has recently been faced with international condemnation due to its tendency to engage in 'dirty floating'. This is combined with high interest rates as well as underdeveloped industries.

What would likely be the result of these conditions on Vencia's trade?

- A. A lack of investment from businesses in the long-term
- B. Some investment in the short-term due to high interest rates
- C. Other countries responding to Vencia's 'dirty floating' in a protectionist manner
- D. The Bank of Vencia buying treasury bonds to loosen its monetary policy
- E. The government of Vencia increasing its VAT and basic rate of income tax further

**ANSWER: A B****QUESTION NO: 2**

Central banks fulfill all of the following functions except which?

- A. Holder of bank accounts on behalf of the commercial banks
- B. Lender of liquidity to the commercial banks
- C. Provider of capital and liquidity to the government
- D. Chief advisor to government on taxation policy

**ANSWER: D****QUESTION NO: 3**

Which of the following economic conditions is likely to lead to demand-pull inflation?

- A. An increase in interest rates and a rise in the world price of oil
- B. An increase in government spending and firms operating at full capacity
- C. Increased monopoly power in goods and labor markets

D. A worsening balance of payments deficit and a rising exchange rate

**ANSWER: B**

**QUESTION NO: 4**

VapNat, an e-cigarette store, has experienced a steep decline in sales over the past six months, despite the economy in general performing well.

Which of the following are most likely to have contributed to such a decline? Select ALL that apply.

- A. Social factors
- B. Technological factors
- C. Legal factors
- D. Environmental factors
- E. Political factors
- F. Economic factors

**ANSWER: A B C**

**QUESTION NO: 5**

Select the best definition of a regressive tax from the options below:

- A. A tax which rises proportionately with income
- B. A tax which rises more than proportionately with income
- C. A tax which rises less than proportionately with income
- D. A tax on expenditure

**ANSWER: C**

**QUESTION NO: 6**

Which THREE of the following are characteristics of good information?

- A. Accuracy
- B. Confidentiality
- C. Verifiability
- D. Accessibility
- E. Trustworthiness
- F. Relevance

**ANSWER: A E F**

#### QUESTION NO: 7

The ability of commercial banks to create credit would be reduced if:

- A. their stock of cash assets increased
- B. the required cash ratio was raised
- C. the central bank bought bonds from the banks
- D. interest rates were lowered

**ANSWER: B**

#### QUESTION NO: 8

Golden Crisp Cereals has calculated that its demand price elasticity is -1.4. It wants to expand in order to produce more cereal and hence increase its sales.

Which of the following are ways in which Golden Crisp Cereals could expand in the short run? Select ALL that apply.

- A. Lease cereal-producing equipment at a fixed price for the next six months
- B. Lease a small factory at a fixed price in order to increase production capacity
- C. Construct a new factory, increasing both staff within the business and the company's production capacity
- D. Invest in research and development so as to perfect the cereal-making process and maintain the company's position as a market leader
- E. Build a long-term marketing strategy involving social media to boost product awareness and hence sales

**ANSWER: A B**

**QUESTION NO: 9**

The real rate of interest is

- A.** The rate of interest charged by banks on loans.
- B.** The nominal rate of interest adjusted for inflation.
- C.** The compound rate of interest.
- D.** The rate of interest charged on loans plus administrative charges.

**ANSWER: B**

**QUESTION NO: 10**

A bottle of brandy costs £25 in Country X, including both unit tax and ad valorem tax. These taxes are applied throughout the production process.

Which of the following applies to this particular scenario? Select ALL that apply.

- A.** The ad valorem tax acts as a sales tax
- B.** Both taxes can be classed as multi-stage consumption taxes
- C.** The unit tax is otherwise known as stamp duty
- D.** The taxes levied on the brandy are charged in a similar way to sales tax in the United States
- E.** The taxes levied on the brandy are proportional

**ANSWER: A B**

**QUESTION NO: 11**

Which of the following statements best describes a private firm?

- A.** An organization that does not seek profit
- B.** An organization that is owned by shareholders
- C.** An organization that is outside the state's influence

D. An organization that is not directly owned by the state

**ANSWER: D**

**QUESTION NO: 12**

All of the following are examples of not-for-profit organizations except one. Which ONE is the exception?

- A. Mutual savings societies
- B. Charities
- C. Partnerships
- D. Trade Unions

**ANSWER: C**

**QUESTION NO: 13**

Which TWO of the following policy actions might be available to a government that wishes to reduce a deficit in the balance of payments?

- A. Devalue the exchange rate in order to increase exports.
- B. Increase the money supply in order to stimulate domestic consumption.
- C. Appreciate the exchange rate in order to reduce imports.
- D. Reduce the interest rate in order to stimulate investment.
- E. Introduce tariffs on imported goods in order to favour domestic producers.

**ANSWER: A D**

**QUESTION NO: 14**

Which of the following can be efficiently allocated between competing uses by the price mechanism?

- A. Private goods
- B. Public goods

- C. Free goods
- D. Externalities

**ANSWER: A**

**QUESTION NO: 15**

If a manufacturing firm contributes to global warming as a byproduct of its production process, this is an example of

- A. A merit good
- B. An external social cost
- C. A diseconomy of scale
- D. A public good

**ANSWER: B**

**QUESTION NO: 16**

RubTech has decided to build a new rubber production facility just outside the semi-rural town of Pettisbury.

The majority of workers at the plant are to be sourced from abroad.

Which of the following could potentially be negative externalities of the decision to build the production facility?

- A. Production processes
- B. Road congestion
- C. The decision to source workers from abroad
- D. Antisocial behaviour
- E. The high unemployment rate in the local area
- F. The poor infrastructure in the local area

**ANSWER: A B C**

**QUESTION NO: 17**

Which of the following is not a function of a central bank?

- A. Banker to the banking system
- B. Supervision of the banking system
- C. Banker to the government
- D. Regulation of the taxation system

**ANSWER: D**

#### QUESTION NO: 18

Organisations are able to achieve more than individuals can achieve because they allow people to do which THREE of the following?

- A. To devolve decision-making
- B. To pool resources
- C. To share skills and knowledge
- D. To specialise
- E. To earn profits
- F. To create hierarchies

**ANSWER: A C E**

#### QUESTION NO: 19

Company X is a wholesaler. It sells the majority of its products in bulk to a small number of restaurants and cafes in the local area.

Which of the following will Company X experience in light of this? Select ALL that apply.

- A. A reduction in distribution costs as a result of economies of scale
- B. A reduction in the number of staff needed to perform certain roles within the company
- C. The company will not be able to buy in bulk at a discount in the future
- D. The company will not be able to maximise efficiency due to rapid business growth



E. It will not experience the benefits of economies of scale

**ANSWER: A B**

**QUESTION NO: 20**

Which THREE of the following businesses are more likely to fare better during a recession?

- A. A construction company specialising in road infrastructure
- B. A producer of rice, a staple good
- C. A producer of automobiles, a durable good.
- D. A producer of security equipment, a counter-cyclical good
- E. A retailer specialising in fashion, a cyclical good.
- F. A construction company specialising in private residential accommodation

**ANSWER: B D E**