

Fundamentals of Business Economics

1. Pills Pharmaceuticals have compiled a component bar chart detailing the proportion of sales revenue the organisation receives from the sale of three groups of products: medical devices, contraceptives and day-to-day or prescription drugs.

A. Pills Medical Devices

B. Pills Contraceptives

C. Pills Day-to-Day Tablets

Answer(s): A

2. PlusTech is a video games company with staff based in Los Angeles, California, London, UK, and Berlin, Germany. PlusTech currently employs 20 people to develop and market its games, while the distribution is handled by RPGInternational, a separate company.

A. The company needs to be technologically advanced so as to remain a market leader in the industry

B. The small number of staff the company has means it has to form a strategic alliance with RPGInternational in order to distribute its games

C. The company is at risk of not succeeding if it does not adopt various business models

D. The videogames industry is international, therefore the company should adopt the model of a virtual organisation

E. The company has no direction, therefore does not stick to one particular business model

F. The company does not have the revenue to increase its staff numbers

Answer(s): B,D

3. i-Songs is about to launch a service that sells downloaded music and video files. Downloads have $MC = 0$.

A. Increase download sales to the point where price elasticity of demand = 1

B. Sell as many downloads as possible

C. Do not produce in order to avoid losses

D. Produce add-ons that have a marginal cost in order to charge a price

Answer(s): A

4. Beth wants to take out an annuity in order to be able to leave more money to her children when she passes away. She has looked at three annuities with different payout rates.

A. £60,455.63

B. £53,460.10

C. £44,024.23

D. £30,609.75

Answer(s): B

5. What does the term 'equity financing' mean?

A. A company financing a short term cash flow shortage by borrowing from a financial intermediary.

B. A company investing its excess liquidity by purchasing shares.

C. A company financing its liquidity deficit by issuing shares.

D. A company selling off some of its tangible assets to pay for debts.

Answer(s): B

6. Which of the following might be regarded as benefits of the single currency, the Euro?

A. (iii) and (iv) only

B. (i) and (ii) only

C. (i), (ii) and (iv) only

D. (ii), (iii) and (iv) only

Answer(s): D

7. Assume the demand for cheese is price elastic. Which of the following describes the effect of a rise in demand for cheese?

A. Higher price, more sold, fall in revenues of cheese makers

B. Higher price, more sold, rise in revenues of cheese makers

C. Higher price, less sold, fall in revenues of cheese makers

D. Higher price, less sold, rise in revenues of cheese makers

Answer(s): B

8. The market demand for a good has a price elasticity of demand of 0.4. Which of the following statements is correct?

A. It is a product with many close substitutes

B. Total quantity sold will fall as price rises

C. Producers' incomes will rise as price falls

D. Consumer expenditure will fall as price rises

Answer(s): B

9. Conflict between the objectives of shareholders and those of management in a company may arise because

A. managers are concerned with the level of profits but shareholders are only interested in the long term share price

B. managers are more concerned with day to day management than shareholders

C. shareholders are always interested in the short term but those in management are interested in the long term

D. raising the pay of management may be incompatible with increasing shareholder value.

Answer(s): B

10. The government has set a maximum house price due to a massive house price rise in the last decade. This is denoted by the line Q1Q2 on the graph.

A. Landowners will continue to build residential properties at the same rate as before the maximum price was implemented.

B. A 'black market' may develop in housing, meaning the maximum price is ignored.

C. There will be a shortage of housing supply in Lingford.

D. It is not likely that the maximum house price will need some sort of reform in the near future.

E. There will be a surplus of housing supply in Lingford.

Answer(s): B,C

11. Which of the following pairings of policy instruments and policy objectives is correct?

A. A

B. D

C. C

D. B

Answer(s): C

12. Which of the following is an internal economy of scale?

A. The local government runs a scheme which allows business to get rid of their rubbish without charge

B. A new highway is built from a large port into a manufacturing town

C. A university discovers a new algorithm which makes manufacturing 3x faster

D. The bank offering cheap loans to large companies

Answer(s): D

13. Country X is a country highly reliant on its oil exports. However, in recent months, oil prices have fallen by

A. Purchase oil produced within the country in order to support the domestic oil industry

B. Allow the oil industry in Country X without any further investment to fail as it is a sunset industry

C. Dump its oil exports into the trading bloc by exporting the oil at an artificially low price

D. Invest in retraining those working in the oil industry so they can enter other domestic industries which are currently more profitable

E. Begin extracting and exporting coal as a substitute for oil

Answer(s): A,D

14. The Lingford Miracle Association is a registered charity. It is closely associated with Lingford General Hospital. The charity has a number of goals.

A. To offer bonuses to the managing director of the organisation when a certain number of sales is reached in a year

B. To provide care for those who are terminally ill

C. To encourage members of the public to invest in the organisation through buying shares

D. To maintain a reasonable profit which can then be given as dividends to shareholders

E. To use the funding provided by government to further the primary cause of the organisation

Answer(s): B

15. Setting a minimum wage above the equilibrium wage

A. results in increased unemployment, and setting a minimum wage below the equilibrium wage results in decreased unemployment

B. has no effect on unemployment, and setting a minimum wage below the equilibrium wage results in increased unemployment

C. results in decreased unemployment, and setting a minimum wage below the equilibrium wage results in increased unemployment.

D. results in increased unemployment, and setting a minimum wage below the equilibrium wage has no effect on unemployment.

Answer(s): B

16. ToyTown, a soft toy manufacturer, produces what it claims to be the cheapest teddy bears on the market. The graph shows the current price of a ToyTown teddy bear and its relationship to the demand for ToyTown teddy bears.

A. Demand would increase as the relationship between price and demand as shown in the graph is elastic

B. Demand would fall as the relationship between price and demand as shown in the graph is inelastic

C. Demand would fall as consumers would look for alternative teddy bears to buy

D. Demand would increase because the teddy bears would be seen as more prestigious by consumers due to their higher prices

Answer(s): C

17. Since its release, Bob Aker's 'Cooking to Go' has sold the following number of copies each Q1:

A. 0.85

B. 4.5

C. 0.63

D. 0.77

E. 1.02

Answer(s): D

18. In the short run, which of the following would result from a depreciation of the country's exchange rate?

A. (ii) and (iv) only

B. (iii) and (iv) only

C. (i) and (ii) only

D. (i), (iii) and (iv) only

Answer(s): D

19. Government X has just increased taxes in order to limit spending and hence demand.

A. An inflationary gap, where demand outstrips output

B. A drop in prices caused by other fiscal policy instruments, e.g. a reduction in business taxes

C. The contraction of the national economy

D. The attainment of full employment within the economy

Answer(s): A

20. Company X's government has a fiscal surplus. However, this has led to less investment in Company X's economy and an increased rate of unemployment.

A. When public expenditure exceeds taxation, and in order to increase inflation

B. When taxation and public expenditure are equal, and personal debt increases

C. When taxation and public expenditure are equal, and personal debt decreases

D. When taxation exceeds public expenditure, and in order to limit inflation

Answer(s): D
