

CIMA BA1 - Fundamentals of Business Economics

1. A business is contemplating investing in a new project with a lifespan of three years and a capital cost of \$100,000. The expected net cash flows from the project are as follows:

Year 1 \$35,000

Year 2 \$50,000

Year 3 \$40,000

The cost of capital to the business is 10%

The net present value of the project is: \$

A. 3155, 3150, 3159, 3157, 3153, 3152, 3158, 3160, 3156, 3154, 3151

B. 3155, 3150, 3159, 3158, 3153, 3152, 3158, 3160, 3156, 3154, 3151

C. 3155, 3150, 3159, 3157, 3153, 3150, 3158, 3160, 3156, 3154, 3151

D. 3153, 3150, 3159, 3157, 3153, 3152, 3158, 3160, 3156, 3154, 3151

Answer(s): A

2. A business was selling 20,000 units of its product per month at a price of \$10.

When it lowers its price to \$9 it finds that its sales rise to 24,000 units per month.

The price elasticity of demand for this firm's product is

A. -2

B. -3

C. -4

D. -5

Answer(s): A

3. A bond has a coupon rate of 7%, a nominal value of \$100 and a market price of \$140
The percentage running yield is %

A. 5

B. 6

C. 7

D. 8

Answer(s): A

4. A business has fixed costs of \$200. Its total variable costs at different levels of output are as follows:

The business can always sell its output at a price of \$100 per unit

The profit maximizing level of output is

A. 4

B. 5

C. 7

D. 8

Answer(s): A

5. A country's gross national product (GNP) will be higher than gross domestic product (GDP) if:

A. indirect taxes are greater than government subsidies

B. there is a net inflow of factor payments on the balance of payments

C. the country's imports are greater than its exports

D. government tax income is greater than government expenditure

Answer(s): B

6. On an aggregate demand and aggregate supply diagram, cost-push inflation is shown by

A. A leftward shift of the short-run aggregate supply curve

B. A rightward shift of the aggregate demand curve

C. A rightward shift of the long-run aggregate supply curve

D. A leftward shift of the aggregate demand curve

Answer(s): A

7. Which of the following best defines "aggregate supply"?

A. The stock of output available for sale in an economy

B. The full employment level of output of the economy

C. The flow of goods and services produced by an economy during the year

D. The level of prices at which output can be sold in an economy

Answer(s): C

8. All of the following would lead to fall in the circular flow of national income except which one ?

A. A fall in business investment

B. A fall in personal savings rates

C. A reduction in the level of government expenditure

D. A rise in the marginal propensity to save

Answer(s): D

9. The level of national income in the circular flow will remain constant if

A. injections are greater than withdrawals

B. injections are equal to withdrawals

C. injections are equal to savings

D. injections plus withdrawals are equal to savings plus investment

Answer(s): B

10. The equilibrium level of national income in an economy is the level of income at which

A. Full employment occurs

B. There is zero inflation

C. Total planned spending equals the supply of output available

D. The government's budget and the balance of payments are both exactly balanced

Answer(s): C

11. If a government adopted a fiscal policy of cutting its budget deficit, the aggregate demand and supply model shows that the result would be:

A. a shift in the aggregate demand curve to the right, a fall in output and employment and a rise in the price level

B. a shift in the aggregate demand curve to the left, a fall in output and employment and a fall in the price level

C. a shift in the aggregate demand curve to the left, a fall in output and employment and a rise in the price level

D. a shift in the aggregate demand curve to the right, a rise in output and employment and a rise in the price level

Answer(s): B

12. Which of the following is most likely to lead an economy to suffer high unemployment?

A. Withdrawals exceeding injections

B. Aggregate demand exceeding aggregate supply

C. Injections exceeding withdrawals

D. A fiscal deficit

Answer(s): A

13. Which one of the following would raise both national income and disposable income ?

A. An increase in transfer payments

B. A reduction in rates of personal income tax

C. An increase in business profits

D. A rise in the rates of personal income tax

Answer(s): C

14. In the aggregate supply and demand model, a significant rise in the cost of energy for industry would lead to the

A. Aggregate supply curve moving to the right

B. Aggregate supply curve moving to the left

C. Aggregate demand curve moving to the right

D. Aggregate demand curve moving to the left

Answer(s): B

15. Part of a country's unemployment figures will consist of people moving between jobs. Which type of unemployment is this?

A. Structural unemployment

B. Cyclical (or demand deficient) unemployment

C. Frictional unemployment

D. Real wage unemployment

Answer(s): C

16. All of the following are characteristics of a recession except which one?

A. Rising levels of unemployment.

B. Increased inflationary pressure.

C. Improving trade balances.

D. Increased government budget deficits.

Answer(s): B

17. Which of the following is the most likely cause of a demand deficient unemployment (or cyclical unemployment)?

A. A fall in domestic interest rates

B. Significantly lower labor costs available in a developing country

C. Improvement in the terms of trade

D. Excess aggregate demand in the economy of a trading partner

Answer(s): C

18. 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(s): B

19. Which ONE of the following would best indicate that economic growth is taking place?

An increase in:

A. The economy's output gap

B. Investment to make good wear and tear of the national capital stock

C. Investment in human capital

D. Gross domestic product sustained over a number of years

Answer(s): D

20. In a recession, the appropriate policy for a government seeking a recovery in the economy would be to:

A. cut public expenditure, reduce taxes, and lower interest rates

B. raise public expenditure, reduce taxes and lower interest rates

C. raise public expenditure, raise taxes and lower interest rates

D. cut public expenditure, raise taxes and raise interest rates

Answer(s): B
