PassQueen
a.k.a dumpsqueen.com

Fundamentals of Business Economics

Cima BA1

Version Demo

Total Demo Questions: 53

Total Premium Questions: 534

Buy Premium PDF

https://passqueen.com

support@passqueen.com

Topic Break Down

Topic	No. of Questions
Topic 1, Macroeconomic and institutional context of business	217
Topic 2, Microeconomic and organisational context of business	179
Topic 3, Informational context of business	51
Topic 4, Financial context of business	87
Total	534

QUESTION NO: 1

What is the mam objective or the PESTEL framework?

A. To identify the key factors in the business environment that are likely to affect a company's performance

B. To identify the key determinants of a company's profitability

C. To identify the key people who should be involved in a company's decision making process

D. To identify the key external stakeholders that are likely to be impacted by a company's activities.

ANSWER: A

Explanation:

PESTEL analysis is used to identify the key factors in the business environment that are likely to affect a company's performance. It provides a structured way to scan the macro-environment: political, economic, social, technological, environmental and legal influences. These are external forces that management cannot directly control, but which can create opportunities, threats, costs, demand changes, compliance requirements or operational constraints. For example, changes in interest rates, consumer demographics, new technology, climate-related regulation or employment law may all affect an organisation's strategic choices and future results.

In the CIMA Business Economics context, PESTEL supports strategic analysis by helping an organisation understand the wider context in which markets and businesses operate. The analysis is forward-looking: it encourages managers to consider which external trends are significant, how likely they are to develop, and how the business may need to respond. It can therefore inform planning, risk assessment and strategy formulation. CIMA's BA1 syllabus includes analysis of the macroeconomic and business environment; see the CIMA Professional Qualification syllabus. A useful overview of PESTEL as a macro-environmental scanning tool is also available from CIPD's strategic planning factsheet.

QUESTION NO: 2

Why do monopoly market structures charge higher prices than would be charged by more competitive market structures?

A. They are more likely to suffer from diseconomies of scale

B. They must recover their higher research and development expenditures

C. They can increase profits by reducing output to force prices higher

D. They have barriers to entry that stop customers going to new markets

ANSWER: C

Explanation:

They can increase profits by reducing output to force prices higher is correct. A monopoly is the sole supplier, or has substantial market power, so it faces the market demand curve rather than taking a market price as given. It chooses the quantity at which marginal revenue equals marginal cost, then charges the highest price consumers are willing to pay for that quantity, as shown by the demand curve. Because marginal revenue is below price for a downward-sloping demand curve, the monopolist's profit-maximising output is typically lower than the output in a highly competitive market, where firms produce up to the point at which price equals marginal cost. Restricting supply in this way raises the market price and can increase monopoly profit, provided demand conditions support it. This is the central economic reason monopoly outcomes commonly involve higher prices and lower quantities than competitive outcomes. The result reflects the firm's ability to exercise market power, rather than simply being a consequence of a particular cost level or type of expenditure. Further discussion of how monopoly output and price are determined is available in OpenStax, How a Profit-Maximizing Monopoly Chooses Output and Price and the Encyclopaedia Britannica overview of monopoly.

QUESTION NO: 3 - (SIMULATION)

A wireless phone manufacturer currently sells 2,000 units per quarter at a price of $400 The estimated price elasticity of demand is -2.5.

The manufacturer is considering an increase in the price to $440

What will this raise (+) or reduce (-) total revenue by? Give your answer in whole numbers.

ANSWER: See the explanation for the answer

Explanation:

Answer: -$140,000

The price increases from $400 to $440, a 10% increase.

Estimated quantity change = -2.5 × 10% = **-25%**.
New quantity = 2,000 × 75% = **1,500 units**.
Current revenue = 2,000 × $400 = **$800,000**.
New revenue = 1,500 × $440 = **$660,000**.

Therefore, total revenue changes by $660,000 − $800,000 = **-$140,000**. Revenue is reduced by $140,000 per quarter.

QUESTION NO: 4

The managing director of Polly's, a department store, has found that ten of its stores located in the south east of England have seen a significant fall in profit margin.

Which of the following is most likely to be the cause of this?

A. An increase in rent for the premises in which the store is located

B. A decrease in sales at these stores

C. An increase in footfall at these stores

D. A decrease in rent for the premises in which the store is located

ANSWER: A

Explanation:

An increase in rent for the premises in which the store is located is the most likely cause because rent is an operating expense. If rental costs increase while the stores' sales revenue and other relevant factors remain broadly unchanged, operating profit falls. Since profit margin expresses profit as a percentage of revenue, a lower profit amount against the same revenue produces a reduced margin. This is particularly plausible where the affected stores are concentrated in south-east England, an area in which commercial property costs may be subject to similar regional market pressures. The key business-economics relationship is that higher input or operating costs reduce the surplus retained from each pound of sales unless the business can increase selling prices or achieve offsetting cost savings. Rent is generally recognised as an expense over the period in which premises are used, so an increase directly reduces reported profit for that period. The IFRS Foundation's overview of IAS 1 describes the presentation of expenses and profit or loss in financial statements: IFRS Foundation: IAS 1. CIMA's BA1 subject area covers how costs, revenues, and market conditions affect business performance: CIMA Professional Qualification.

QUESTION NO: 5

Larger companies may benefit from economies of scale due to which THREE of the following?

A. Larger companies may gain greater market share through advertising

B. Larger companies may spread their fixed research and development costs over a larger amount of output

C. Larger companies may more easily access public subsidies

D. Larger companies may obtain lower interest rates on their loans.

E. Larger companies may purchase inputs in bulk at lower unit prices

F. Larger companies may benefit from greater customer loyalty

ANSWER: B D E

Explanation:

Economies of scale occur when expanding output reduces long-run average cost per unit. “Larger companies may spread their fixed research and development costs over a larger amount of output” is an internal economy of scale because research and development expenditure is often a substantial fixed or indivisible cost; producing more units allows that cost to be allocated across a greater volume. “Larger companies may obtain lower interest rates on their loans.” reflects financial economies of scale. Large, established businesses may have stronger creditworthiness, more assets available as security, and access to a broader range of finance, reducing the cost of borrowing. “Larger companies may purchase inputs in bulk at lower unit prices” is a purchasing economy of scale: suppliers may offer quantity discounts and lower transaction or delivery costs per unit on large orders. Each of these mechanisms directly lowers unit costs as the business operates at a larger scale, which is the essential feature of economies of scale. This treatment is consistent with the standard economic distinction between fixed-cost spreading, purchasing advantages and financial advantages available to larger firms. See OpenStax, The Structure of Costs and Economics Help, Economies of Scale.

QUESTION NO: 6

A company in Country M owns a subsidiary in Country O valued at OS200 million. The rate of exchange between the Country M dollar (M$) and the Country O dollar (OS) is OS1 - MS6

If the Country M S depreciated by 10% what would be the increase or decrease in the MS valuation of the subsidiary?

Give your answer in whole millions and indicate whether it is an increase or decrease.

A. M$120 million decrease

B. M$133 million increase

ANSWER: B

Explanation:

M$133 million increase is correct. Initially, the subsidiary’s value of OS200 million is translated at OS1 = M$6, producing an M$ valuation of M$1,200 million (OS200 million × M$6). A 10% depreciation of the Country M dollar means each M$ is worth 10% less relative to the Country O dollar. Consequently, more M$ are required to buy one OS. The revised exchange rate is M$6 divided by 0.90, or approximately M$6.667 per OS. Translating the unchanged OS200 million subsidiary value at this new rate gives an M$ valuation of approximately M$1,333.3 million. The increase is therefore approximately M$133.3 million, which is M$133 million when expressed in whole millions. This is an increase because the foreign-currency asset is worth more when translated into a home currency that has depreciated. Exchange-rate movements affect the domestic-currency translated value of overseas assets even where the asset’s value in its local currency has not changed. For background on exchange rates and currency depreciation, see the International Monetary Fund’s exchange-rate overview and the Encyclopaedia Britannica explanation of exchange rates.

QUESTION NO: 7

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

Explanation:

The nominal rate of interest adjusted for inflation is correct. The real rate of interest measures the change in purchasing power earned by a saver or paid by a borrower after allowing for changes in the general price level. A nominal interest rate is the stated money rate, but if prices rise during the period, each unit of currency buys fewer goods and services. Adjusting the nominal return for inflation therefore identifies the economic return in “real” terms. For an introductory approximation, the real interest rate is calculated as the nominal interest rate minus the inflation rate. For example, where the nominal rate is 7% and inflation is 3%, the approximate real rate is 4%. More precisely, the relationship is calculated using the Fisher equation: real rate = (1 + nominal rate) / (1 + inflation rate) − 1. This distinction is central in business economics because consumption, saving, borrowing, and investment decisions depend on expected purchasing power rather than solely on the stated monetary rate. The Bank of England discusses how inflation affects the value of money at https://www.bankofengland.co.uk/monetary-policy/inflation, while the International Monetary Fund explains the relationship between nominal and real interest rates at https://www.imf.org/external/pubs/ft/fandd/basics/nominal.htm.

QUESTION NO: 8

A railway franchise in north-eastern Messu Potami has recently changed hands, and is now being operated by the company IstClass. However, IstClass already operate the railway franchise in northwestern Messu

Potami.

Which of the following courses of action would be most appropriate for the government of Messu Potami to take?

Select ALL that apply.

A. Establish a regulatory body to prevent a regional monopoly

B. Rerun the franchise bidding process if it found that IstClass are imposing additional price rises due to the regional monopoly

C. Allow the regional monopoly to exist, increasing fare prices for passengers on trains in both north-western and north-eastern Messu Potami

D. Impose a uniform sales tax on all railway tickets which would equalise prices across the country

E. Immediately nationalise the railway network, ending all private franchises and thus any regional monopolies

ANSWER: A B

Explanation:

Establishing a regulatory body to prevent a regional monopoly is appropriate because rail services commonly have features of a natural monopoly: large, specialised infrastructure costs and limited scope for competing operators to duplicate tracks or stations efficiently. Where a single franchise holder gains substantial regional market power, regulation can protect passengers by overseeing fares, service quality, access arrangements and the operator’s conduct. This supports the economic objective of limiting the harm that can arise when competitive pressure is weak.

Rerunning the franchise bidding process if IstClass is imposing additional price rises because of its regional monopoly is also appropriate. Competitive tendering is an important means of creating competition *for* a market where direct competition *within* the market may be impractical. If evidence shows that the combined franchises are enabling unjustified price increases, reopening the award process can restore competitive discipline and allow the government to impose clearer pricing and service obligations in a replacement franchise. Competition authorities and sector regulators generally assess market power and intervene where it may harm consumers; see the UK Competition Act 1998 at legislation.gov.uk and the Competition and Markets Authority’s guidance at GOV.UK.

QUESTION NO: 9

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: B C D

Explanation:

Organisations can achieve outcomes beyond the capacity of a single individual because they bring together inputs, capabilities and coordinated activity. **To pool resources** is correct: an organisation enables people to combine finance, equipment, information, time and labour, allowing projects to be undertaken at a scale that an individual may not be able to fund or manage alone. **To share skills and knowledge** is also correct because people possess different expertise and can exchange information, learn from one another and apply complementary capabilities to solve problems and improve performance. Finally, **To specialise** is correct because organisational members can concentrate on tasks in which they are relatively more productive or skilled. This division of labour can raise output, quality and efficiency, while coordination combines the specialised contributions into a final product or service. These ideas reflect the economic rationale for firms and organisations: coordinating resources and specialised knowledge can reduce the costs of carrying out complex activity through isolated individual action. CIMA's Business Economics syllabus includes the role of organisations and the economic context in which they operate; see the CGMA Professional Qualification syllabus. For a concise discussion of specialisation and division of labour, see Encyclopaedia Britannica: division of labour.

QUESTION NO: 10

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: C

Explanation:

An increase in business profits would raise national income because profit is a factor income earned from production, alongside wages, rent and interest. When firms generate higher profits as a result of producing and selling more output, the income generated within the economy rises. This is consistent with the income approach to measuring national income, under which operating surplus/profits form part of the income generated by economic activity.

Higher business profits also increase disposable income in the economy because profits ultimately accrue to business owners and shareholders, whether distributed as dividends or retained on their behalf as part of their wealth and claims on firms. In the basic macroeconomic income model used in BA1, an increase in income generated by firms feeds through into higher income available to the private sector, subject to the usual treatment of taxes and saving. The key point is that this change originates in additional income from production rather than merely redistributing existing income or changing tax deductions.

The distinction between output-generated income and disposable income is central to analysing the circular flow of income in CIMA BA1. National accounts also classify corporate profits within operating surplus, a component of income generated by production. See the CIMA syllabus and the UK Office for National Statistics' national accounts glossary.

QUESTION NO: 11

Which THREE of the following are objectives of corporate governance?

A. To ensure that managers have attractive compensation packages

B. To implement clear career progression routes for employees

C. To ensure that customers ' needs are addressed

D. To ensure that a company is run in a legal and ethical manner

E. To implement incentives for managers to pursue long term financial sustainability

F. To increase transparency in company reporting

ANSWER: D E F

Explanation:

Corporate governance provides the framework through which a company is directed, controlled and held accountable. **To ensure that a company is run in a legal and ethical manner** is an objective because effective governance promotes integrity, compliance with applicable laws and regulations, and a culture in which the board sets appropriate ethical standards. The UK Corporate Governance Code expressly expects boards to establish the company's purpose, values and culture, and to ensure that these are aligned with its strategy.

To implement incentives for managers to pursue long term financial sustainability is also central to governance. The board should structure executive remuneration so that management incentives support the organisation's long-term sustainable success rather than rewarding short-term actions that could damage value, resilience or stakeholder confidence. This alignment helps address the agency relationship between shareholders and directors.

To increase transparency in company reporting supports accountability. Reliable, fair and understandable reporting enables shareholders and other stakeholders to assess performance, financial position, governance arrangements and risk. Transparent disclosure is therefore essential to informed oversight and trust in the company. These principles are reflected in the UK Corporate Governance Code and the FRC's corporate governance and reporting standards.

QUESTION NO: 12

A business could meet a short term financial need by all of the following except one. Which ONE is the exception?

A. Using its cash reserves

B. A bank overdraft

C. Issuing shares

D. Factoring

ANSWER: C

Explanation:

Issuing shares is the exception because it is normally a source of permanent, long-term equity finance rather than a means of covering a short-term funding gap. When a business issues ordinary shares, it receives capital from investors in exchange for ownership interests. That capital does not have a fixed repayment date, and shareholders generally expect returns through dividends and potential growth in the value of their investment. Consequently, share issues are typically associated with financing long-term investment, expansion, acquisitions, or a broader restructuring of the business's capital base.

Short-term financial management focuses on ensuring that the business can meet near-term obligations and manage working-capital timing differences. Equity finance has a substantially different role: it alters the ownership structure, can require shareholder approvals and formal issue procedures, and is not ordinarily arranged simply to resolve an immediate cash-flow requirement. This distinction between short-term funding and longer-term capital is central to analysing how businesses finance their activities in the CIMA Business Economics context. CIMA's qualification framework covers the economic and financial principles needed for business decision-making; see [CIMA Professional Qualification](). Further information on the nature of company shares and share capital is available from [GOV.UK]().

QUESTION NO: 13

The management of Pennyfarthing's Toy Bazaar requires financial advice, but is unsure of which type of bank to approach to acquire this. The company receives a profit of Â£1,000,000 a year, and currently operates in

Europe and North America.

Which of the following reasons explains why Pennyfarthings Toy Bazaar should use a wholesale bank?

A. It has a profit of Â£100,000

B. It has international operations

C. It uses the Alternative Investment Market

D. It has issued new shares to members of the public

E. It is a medium-sized business

ANSWER: B

Explanation:

It has international operations is correct because wholesale banks specialise in serving larger corporate, institutional and internationally active customers. Their services extend beyond routine domestic business banking and can include international cash management, foreign-exchange services, trade finance, cross-border payments, borrowing in different currencies and financial risk management. A business operating in both Europe and North America is likely to receive and make payments across borders, face exchange-rate exposure, and need banking arrangements that coordinate activity across more than one country. These are the kinds of more complex financial needs for which a wholesale bank can provide suitable advice and products.

In the CIMA BA1 context, the relevant distinction is the nature and scale of the organisation's banking requirements. International activity is a strong indicator that a business may benefit from wholesale banking expertise, because the bank can support global treasury and financing needs rather than only local transactional services. The Bank of England describes wholesale markets as markets in which financial institutions and larger participants trade and obtain financial services, reflecting the institutional focus of wholesale banking. See the [Bank of England's wholesale markets information]() and the [Bank for International Settlements' cross-border payments report]().

QUESTION NO: 14

The share price of Quench Drinks has been steadily falling for several years despite steady sales and a slight market share increase over the last 5 years. They have been criticised for being full of sugar and not

capitalising on the health food trend.

Quench are starting to face pressure from their shareholders to push the share price back up.

Which of the following would be most likely to improve Quench's standing in the soft drinks market? Select ALL that apply.

A. Release a new protein shake, QuenchFit

B. Publishing an advert in a major magazine promoting QuenchFit and the benefits of healthy living

C. Relocate the company to a country with less strict public health guidelines

D. Continue as normal

E. Appoint a new CEO

ANSWER: A B

Explanation:

Releasing a new protein shake, QuenchFit directly responds to the identified change in consumer preferences towards healthier products. Product development enables Quench to broaden its range beyond sugary drinks and offer a product that is more consistent with the health-food trend. This can strengthen the business's competitive position by helping it appeal to health-conscious consumers, enter a growing product segment, and demonstrate that it is adapting to an important external market development.

Publishing an advert in a major magazine promoting QuenchFit and the benefits of healthy living supports this repositioning by communicating the new product and its health-related benefits to a wide relevant audience. Promotion is important because a product's market potential depends not only on its features but also on customer awareness and the brand associations created around it. Linking QuenchFit to healthy living can help update perceptions of Quench from a business criticised for high-sugar products to one responding constructively to changing customer needs. Together, product development and targeted promotion are market-oriented actions that can improve the firm's standing and, if successful, support shareholder confidence. CIMA's BA1 syllabus includes the effects of market conditions and changing consumer preferences on business decisions; see CIMA BA1 Fundamentals of Business Economics. For further context on responding to customer needs through marketing, see OpenStax Principles of Marketing.

QUESTION NO: 15

Which of the following functions is not performed by investment exchanges such as NASDAQ, the London Stock Exchange or the New York Stock Exchange?

A. A primary market for newly issued private securities

B. A secondary market to make existing shares liquid

C. A provider of regulation over assets and trading methods

D. A lender of last resort to the banking system

ANSWER: D

Explanation:

A lender of last resort to the banking system is the correct answer because lending of last resort is a central-bank function, rather than a function of a securities or investment exchange. A central bank can provide liquidity to eligible banks or financial institutions when they face a temporary shortage of cash or cannot obtain sufficient funding through normal market channels. This role is intended to support financial stability and reduce the risk that liquidity pressure at an individual institution spreads through the wider banking system. The Bank of England describes its facilities for providing liquidity and explains that it acts to support the stability of the financial system in stressed conditions. Such lending involves the central bank's balance sheet, monetary authority, and ability to create central-bank money—powers that an exchange such as NASDAQ, the London Stock Exchange, or the New York Stock Exchange does not possess. Investment exchanges instead operate organised venues and related market infrastructure for securities trading. See the Bank of England's overview of its market operations and its explanation of financial stability.

QUESTION NO: 16

Which ONE of the following would appear as a debit item on a country's balance of payments current account?

A. Overseas investment by a domestic multinational company

B. Expenditure in the country by an overseas visitor

C. A flow of company profits to the parent company based in another country

D. Payment by an overseas company for services provided in the country

ANSWER: C

Explanation:

A flow of company profits to the parent company based in another country is a debit item in the current account because it is income paid by residents of the reporting country to non-residents. In balance of payments accounting, the current account records transactions in goods, services, primary income and secondary income between residents and the rest of the world. Profits distributed to a foreign parent company are generally classified as investment income within primary income. Since the payment flows out of the domestic economy to an overseas owner, it is recorded as a debit (an outflow) in the primary-income component of the current account.

This treatment reflects the economic ownership of the investment rather than the physical location of the company making the profit. A subsidiary may produce profits in the reporting country, but where its parent is non-resident, the profits attributable and payable to that parent represent a return on foreign investment. The International Monetary Fund's balance of payments framework identifies investment income, including dividends and reinvested earnings, as primary income and records income payable to non-residents as a debit. See the IMF's Balance of Payments and International Investment Position Manual, Sixth Edition and the UK Office for National Statistics overview of the balance of payments.

QUESTION NO: 17

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

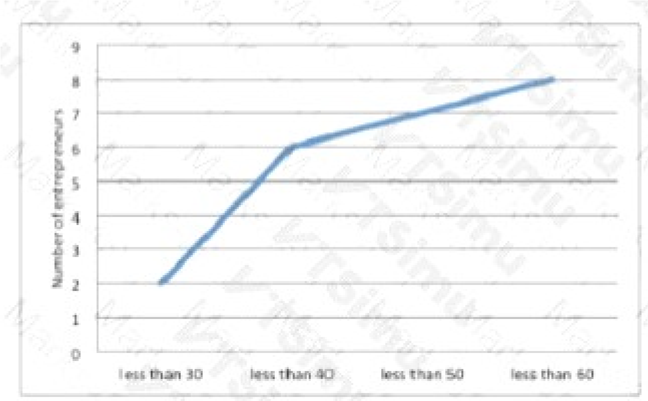
Explanation:

Negative externalities are costs arising from production or consumption that fall on third parties rather than being fully borne by the business making the decision. Pollution, noise, odours, or waste from *Production processes* can affect nearby residents, landowners, and the local environment. These effects are therefore external costs associated with the new facility. *Road congestion* may also occur if the plant increases traffic from freight deliveries, employee commuting, and supporting services. Other road users and local residents can bear the resulting costs through longer journey times, noise, and reduced road safety.

The effects associated with *The decision to source workers from abroad* can also potentially be external: a substantial, rapid inflow of workers may place unpriced pressure on local housing, public services, and community cohesion. Whether such effects arise depends on local circumstances, but they are plausible costs borne beyond RubTech and its employees. In each case, the key economic principle is that people not directly party to RubTech's production decision may experience consequences for which the market price of the rubber does not fully compensate them. See the OECD's overview of environmental externalities and the UK Department for Transport's WebTAG guidance.

QUESTION NO: 18

The following ogive shows the cumulative frequency of the ages of a small sample of entrepreneurs.



Which THREE of the following statements are true?

A. Four entrepreneurs were aged between 30 and 40

B. The sample included 10 entrepreneurs

C. The sample did not include any entrepreneurs older than 65.

D. Two entrepreneurs were aged between 40 and 50

E. The sample did not include any entrepreneurs younger than 20

F. Most entrepreneurs were younger than 40.

ANSWER: B C E

Explanation:

An ogive plots cumulative frequency, so its final (highest) point gives the total number of observations in the sample. The curve reaches a cumulative frequency of 10, so “The sample included 10 entrepreneurs” is correct. It also reaches its final total by age 65 and does not rise after that point. Since any entrepreneur older than 65 would require a further increase in cumulative frequency, “The sample did not include any entrepreneurs older than 65.” is correct. At the lower end, the cumulative frequency is zero up to age 20. This shows that no observations have been accumulated below 20, so “The sample did not include any entrepreneurs younger than 20” is also correct. These readings use the central interpretation of a cumulative-frequency graph: the height at a given value represents the number of observations less than or equal to that value, while changes between two values represent the number within that interval. For background on cumulative-frequency distributions and ogives, see OpenStax Introductory Statistics and Encyclopaedia Britannica: ogive.

QUESTION NO: 19

Which of the following are reasons why the principal-agent problem is so critical for businesses? Select ALL that apply.

A. It limits the control of one layer of management over another

B. It can lead to dubious managerial practices within the company

C. It leads to higher profits which ultimately benefit a business

D. Higher sales means the business will perform well regardless of managerial practice

E. Co-ordination needs to be good in order for multiple layers of management to function well

ANSWER: A B

Explanation:

The principal-agent problem is critical because delegation creates a gap between the people who own or ultimately bear the consequences of decisions (principals) and the people empowered to make those decisions (agents). “It limits the control of one layer of management over another" is correct because organisations commonly delegate authority through several management levels. Each level may have different information, objectives and incentives, so senior managers or owners cannot directly observe or fully control every decision taken below them. This makes effective governance, reporting and accountability essential.

"It can lead to dubious managerial practices within the company" is also correct. Where managers' personal interests are not aligned with those of shareholders or the wider organisation, they may take actions that favour their own remuneration, status, job security or short-term targets rather than long-term organisational value. Such conduct can include excessive risk-taking, manipulation of performance measures, or using company resources for private benefit. Corporate-governance mechanisms are designed to reduce these agency costs by improving oversight and aligning incentives. The OECD discusses these governance challenges and the importance of effective monitoring in its G20/OECD Principles of Corporate Governance. A clear overview of agency relationships in corporate finance is also provided by OpenStax.

QUESTION NO: 20

Country X is a country highly reliant on its oil exports. However, in recent months, oil prices have fallen by 20%. It is located near Country Y, an oil exporter which is a member of a trading bloc. Country X has some coal reserves, but faces stiff competition from Country Z, a member of the trading bloc, which also exports coal.

Which of the following would be the most effective way for the government to alleviate these circumstances? Select ALL that apply.

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

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

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

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

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

ANSWER: A B

Explanation:

"Purchase oil produced within the country in order to support the domestic oil industry" is an appropriate short-run intervention because the fall in the world oil price reduces export revenue and domestic producers' income. Government demand for domestically produced oil can help sustain output and employment while the industry adjusts to lower prices. This is a form of fiscal support intended to reduce the immediate economic disruption caused by a negative terms-of-trade shock in a country highly dependent on one commodity.

"Invest in retraining those working in the oil industry so they can enter other domestic industries which are currently more profitable" is the stronger long-run response. A reliance on oil exposes the economy to volatile commodity prices, so helping displaced workers obtain transferable skills supports labour mobility and economic diversification. Retraining can reduce structural unemployment and allow labour to move towards sectors with better current prospects, improving the economy's capacity to adapt rather than preserving dependence on a declining source of export income. The International Monetary Fund discusses the importance of diversification for commodity-dependent economies, while the International Labour Organization identifies skills development and reskilling as key supports for labour-market transitions. See IMF research on export diversification and the ILO's skills policy guidance.

QUESTION NO: 21

All of the following would provide justification for government competition authorities to investigate the businesses involved except one. Which ONE is the exception?

A. The operation of a cartel

B. A merger between the two dominant firms in an industry

C. A price fixing agreement between two rival firms

D. An advertising campaign directly targeting rival firms

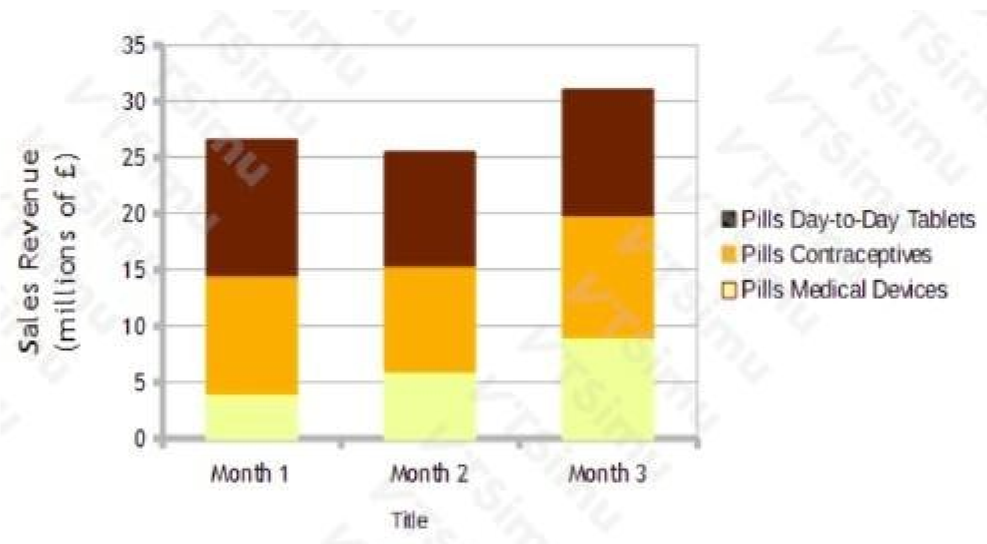
ANSWER: D

Explanation:

An advertising campaign directly targeting rival firms is the exception because comparative or rival-focused advertising is ordinarily a legitimate form of non-price competition. Firms may seek to persuade consumers that their product offers better value, quality, features or service than competing products. This can promote informed consumer choice and encourage businesses to improve their offerings. Competition authorities would not normally investigate a campaign merely because it names, contrasts itself with, or seeks to win customers from a rival. The key competition-policy issue is whether firms are competing independently for customers, and advertising is generally evidence of that competitive process. Targeted advertising could raise separate legal concerns if it were deceptive, defamatory, or otherwise unlawful, but those matters do not by themselves establish the type of restriction of competition that normally justifies a competition-authority investigation. The UK Competition and Markets Authority explains that competition benefits consumers through businesses competing to offer better products and services, while its guidance distinguishes this from conduct that restricts competition. See the [Competition and Markets Authority overview] and the CMA's [guidance on cartels and price fixing].

QUESTION NO: 22

The component bar chart displaying sales revenues for different types of product sold by Pills Pharmaceuticals shows that the poorest performing products are its medical devices.



Which of the following may be reasons for this? Select ALL that apply.

A. The company does not specialise in selling medical devices to hospitals

B. The company has only recently started to develop and sell medical devices and equipment

C. The company may be winding up its development and distribution of medical devices and equipment

D. The company may be facing a public relations crisis which is turning away members of the public who would

E. otherwise be interested in buying these products

F. The company may be involved in a standards dispute in terms of over-inflated prices for its medical devices

ANSWER: A B

Explanation:

The company does not specialise in selling medical devices to hospitals may explain relatively low medical-device revenue because hospitals are an important institutional market for many devices. A business whose established capabilities, sales force and customer relationships are concentrated elsewhere may have limited access to procurement decision-makers and fewer opportunities to secure high-value hospital contracts. This can leave medical devices contributing less revenue than product lines that match the company's existing market focus.

The company has only recently started to develop and sell medical devices and equipment is also a reasonable explanation. A new product line normally takes time to move through development, approvals, distribution arrangements and market adoption. Early sales can therefore be low while customers become aware of the products and the business builds channels and relationships. Sales-revenue data should be interpreted in its commercial context: a component bar chart identifies the relative contribution of each category, while management must consider factors such as market coverage and product life-cycle stage when investigating the cause. This reflects the BA1 emphasis on using economic and business information to support informed decisions. See CIMA's Study Hub and the CIMA Professional Qualification overview.

QUESTION NO: 23

All of the following are advantages of a system of floating (flexible) exchange rates except one. Which ONE is the exception?

A. They provide automatic correction of imbalances in the balance of payments

B. Countries no longer need to hold foreign exchange reserves to manage the currency

C. Countries with inflationary problems can avoid losing international price competitiveness

D. They encourage international trade by eliminating foreign exchange transactions costs

ANSWER: D

Explanation:

"They encourage international trade by eliminating foreign exchange transactions costs" is the exception because a floating exchange-rate regime does not eliminate the need to convert one currency into another when businesses buy from, sell to, invest in, or borrow from overseas counterparties. Such conversions continue to involve dealer spreads, fees, and other transaction costs. The exchange rate is simply determined primarily by market demand and supply rather than being maintained at a fixed official parity. In practice, a floating rate can also change between the date a price is agreed and the date payment is made. Firms engaged in international trade may therefore incur additional costs to manage this exchange-rate risk, for example through forward exchange contracts or other hedging arrangements. A floating system may allow exchange-rate movements to contribute to external adjustment, but that mechanism is distinct from removing the costs of foreign-currency transactions. The International Monetary Fund describes floating arrangements as those in which the exchange rate is market determined, while the Bank of England explains that foreign-exchange markets are where currencies are bought and sold. Neither feature means that currency conversion becomes cost-free. See the IMF's exchange-rate arrangement classification and the Bank of England's explanation of exchange rates.

QUESTION NO: 24

Which THREE of the following are examples of supply-side policies?

A. Increasing investment in vocational training for unemployed youth

B. Providing tax incentives to firms investing in new technology

C. Reducing the rate of value added tax applied to consumer goods

D. Increasing current expenditure on a national medical service

E. Introducing a funding scheme to support university research

F. Applying a tariff on the import of foreign technology

ANSWER: A B E

Explanation:

Supply-side policies are government measures intended to increase an economy's productive capacity and improve the efficiency with which labour, capital and technology are used. Increasing investment in vocational training for unemployed youth develops human capital: it equips potential workers with relevant skills, raises employability and can increase the effective supply and productivity of labour. Providing tax incentives to firms investing in new technology encourages capital investment and innovation. New technology can enable firms to produce more output from given resources, lowering unit costs and raising productivity over time. Introducing a funding scheme to support university research also promotes innovation and the development of new knowledge. Research can lead to improved production processes, commercially valuable discoveries and technological progress, all of which support long-run economic growth rather than simply changing current aggregate demand. These policies therefore address key supply-side determinants—skills, investment and innovation—and can shift the economy's productive potential outward. CIMA's BA1 syllabus includes government policies aimed at economic growth and the supply side of the economy; see the CIMA BA1 Fundamentals of Business Economics study resources. The OECD also explains the economic importance of innovation and productivity in its Innovation and technology resources.

QUESTION NO: 25

Betsy's Fish Foods Pic. has issued shares in a prospectus.

Which of the following are benefits of selling shares in this manner? Select ALL that apply.

A. It allows companies to open up its investor base

B. It allows more investors to receive profits in the form of dividends from the company

C. It allows the company to sell shares at a discounted price

D. It allows the company to sell shares to larger private firms who can invest more money into the company

E. It allows the company to sell second-hand shares

ANSWER: A B

Explanation:

A prospectus is a formal disclosure document used when securities are offered to the public. Selling shares through this route enables a company to reach a broader range of potential investors than it could through a small private placement. Accordingly, "It allows companies to open up its investor base" is a benefit: a wider investor base can make it easier to raise substantial equity finance and spread ownership among more shareholders. The UK Financial Conduct Authority explains that a prospectus provides information for investors considering securities offered to the public or admitted to trading; see its Prospectus Regulation guidance.

"It allows more investors to receive profits in the form of dividends from the company" is also a benefit in the sense that issuing shares gives additional investors the opportunity to become shareholders and potentially participate in distributions through dividends. Dividends are paid only where the company has distributable profits and declares a dividend, but share ownership is what creates that potential entitlement. This reflects the ordinary shareholder relationship described in the UK government's guidance on company shares, which notes that shareholders may receive a share of company profits through dividends. Therefore, public issuance both widens access to ownership and allows a larger group to participate in potential dividend returns.

QUESTION NO: 26

A manufacturing company is considering a new investment project.

Which TWO of the following would reduce the net present value of the investment to the business"?

A. A rise in the scrap value of the project at the end of its life.

B. A reduction in the expected level of future sales.

C. A rise in interest rates.

D. A fall in the initial capital cost of the project

E. An expected fall in the future price of components used by the business

ANSWER: B C

Explanation:

Net present value (NPV) is the present value of expected future net cash inflows less the initial investment. A reduction in the expected level of future sales reduces the project's anticipated revenue cash inflows. Assuming relevant costs and other assumptions remain unchanged, lower sales receipts mean lower annual net cash flows. Discounting these reduced cash flows and aggregating them therefore produces a lower NPV.

A rise in interest rates would reduce NPV where it increases the business's relevant required rate of return, or discount rate. NPV places less value today on cash received further into the future by discounting it at the required return. When the discount rate increases, the present-value factor applied to each future cash flow falls. Consequently, the total present value of the project's expected future cash inflows decreases, reducing the project's NPV. These effects are fundamental to using NPV for investment appraisal: decisions should be based on incremental cash flows and a discount rate reflecting the opportunity cost of capital. CIMA's BA1 syllabus includes the application of discounted cash-flow methods in investment decisions; see CIMA Certificate in Business Accounting syllabus. For the calculation and interpretation of present values, see OpenStax: Net Present Value Methods.

QUESTION NO: 27

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

Explanation:

Leasing cereal-producing equipment at a fixed price for the next six months and leasing a small factory at a fixed price in order to increase production capacity are both practical short-run expansion methods. In the short run, a business faces constraints on at least some productive resources, particularly the time needed to create entirely new premises or install long-term infrastructure. Leasing gives Golden Crisp immediate or relatively rapid access to capital resources—machinery and factory space—without waiting for a new factory to be designed and constructed. It therefore allows the company to raise its potential output promptly, while retaining flexibility because the resources are hired rather than permanently acquired.

The stated price elasticity of demand of −1.4 means demand is price elastic: proportionately, sales volume responds more than price to a price change. This provides a commercial reason for wanting sufficient productive capacity if the firm uses pricing or sales activity to grow demand. However, the short-run expansion decision itself concerns obtaining usable capacity quickly. Rental arrangements for equipment and premises are suitable because they make existing productive assets available within the relevant short time horizon. The distinction between short-run and long-run production decisions is explained in OpenStax's discussion of short-run production and fixed inputs; CIMA's economics subject area is outlined in the CIMA Certificate in Business Accounting syllabus.

QUESTION NO: 28 - (DRAG DROP)

Complete the table inputting the relevant effect for each of the scenarios listed.

Scenario	Effect on the exchange rate
If an economy has high inflation it will	
If there is an increase in the market interest rate it will	
If a country has a trade deficit it will	
If a national government sells currency on the international markets to improve export performance it will	
If speculators expect the value of a currency to increase it will	

Weaken the exchange rate
Strengthen the exchange rate

ANSWER:

Scenario	Effect on the exchange rate
If an economy has high inflation it will	Weaken the exchange rate
If there is an increase in the market interest rate it will	Strengthen the exchange rate
If a country has a trade deficit it will	Weaken the exchange rate
If a national government sells currency on the international markets to improve export performance it will	Weaken the exchange rate
If speculators expect the value of a currency to increase it will	Strengthen the exchange rate

Weaken the exchange rate
Strengthen the exchange rate

Explanation:

Exchange rates are determined by the demand for and supply of a currency in foreign-exchange markets. High inflation tends to weaken an exchange rate because it reduces the currency's purchasing power and can make domestically produced goods less competitive internationally. This reduces demand for the currency over time. A trade deficit also weakens the exchange rate: when residents buy more imports than the country sells in exports, they need to sell domestic currency to obtain foreign currencies to pay overseas suppliers. This creates a greater supply of the domestic currency in the foreign-exchange market.

An increase in market interest rates strengthens the exchange rate because investors seek higher returns. Higher interest rates can attract overseas funds into deposits and other financial assets denominated in the domestic currency. Those investors must buy the currency first, increasing demand for it and raising its value. This relationship between interest rates, capital flows, and currency demand is a key exchange-rate mechanism, as discussed in the Bank of England's exchange-rate explainer.

When a national government sells its own currency on international markets to improve export performance, the increased supply of that currency lowers its price relative to foreign currencies. The resulting weaker currency makes domestic exports cheaper for overseas buyers. Finally, if speculators expect a currency's value to rise, they buy and hold it in anticipation of a gain. Their purchases increase current demand, which strengthens the exchange rate. The relevant effects therefore follow directly from whether each scenario increases currency demand or increases its supply.

QUESTION NO: 29

The central bank of Country Z wishes to reduce inflationary pressure by using contractionary monetary policy.

Which of the following actions could form part of this policy? Select ALL that apply.

A. Increase the policy interest rate

B. Sell government securities in the open market

C. Raise commercial banks' reserve requirements

D. Buy government securities in the open market

E. Reduce the policy interest rate

ANSWER: A B C

Explanation:

Increasing the policy interest rate is contractionary because it raises the cost of borrowing and increases the incentive to save. This tends to reduce consumption and investment expenditure, lowering aggregate demand.

Selling government securities through open-market operations is also contractionary. Purchasers pay for the securities from their bank balances, reducing liquidity and bank reserves in the financial system. Raising reserve requirements, where this instrument is used, can similarly limit the ability of commercial banks to create credit. Buying government securities and reducing interest rates would instead be expansionary measures. The Federal Reserve outlines the role of open-market operations in monetary policy.

QUESTION NO: 30

Which ONE of the following would tend to make the demand for a product price inelastic?

A. Expenditure on the product accounts for a large part of total household spending

B. There are many close substitutes for the product

C. The product is regarded as a luxury

D. The price changed a short while ago

ANSWER: D

Explanation:

The price changed a short while ago is correct because price elasticity of demand is generally lower in the short run. Immediately after a price change, consumers may have limited practical ability to alter their purchasing patterns. They may already have established routines, commitments, contracts, or a lack of immediate information about alternatives. As a result, the percentage change in quantity demanded is likely to be relatively small compared with the percentage change in price, which is the defining feature of price-inelastic demand.

Given more time, consumers can gather information, revise budgets, change habits, seek alternative suppliers or products, and make longer-term adjustments. Demand may therefore become more elastic over a longer period. The time available for adjustment is a standard determinant of elasticity and is particularly important when considering how consumers respond to price changes in real markets. This distinction between short-run and long-run responsiveness is explained in the elasticity discussion in OpenStax Principles of Economics and in the IMF explanation of elasticity.

QUESTION NO: 31

Brilliant Buys Local is a subsidiary of Brilliant Buys, and operates a number of smaller stores in local neighbourhoods.

The managing director of Brilliant Buys Local, Mr Davidson, has been given a scatter diagram with sales of each store based on the size of the local population.

Which of the following options outlines the best ways to interpret this diagram in this context? Select ALL that apply.

A. Use Pearson's correlation coefficient to accurately measure the degree of linear correlation between store sales and population

B. Draw a line of best fit by eye and estimate how much of a correlation there is between store sales and population

C. Rearrange the data points on the scatter diagram so that it shows any correlation more clearly

D. Use the diagram to interpret that two of the stores with the highest sales are in areas with a medium-sized population

E. Use the diagram to interpret that the store with the lowest sales was in an area with a population of 5000

ANSWER: A B

Explanation:

“Use Pearson's correlation coefficient to accurately measure the degree of linear correlation between store sales and population” is appropriate because Pearson’s coefficient provides an objective numerical measure of the strength and direction of a linear relationship between the two quantitative variables. This allows Mr Davidson to assess whether larger local populations tend to be associated with higher store sales and whether that pattern is strong enough to be useful for planning. The coefficient measures association, rather than proving that population size causes sales to change.

“Draw a line of best fit by eye and estimate how much of a correlation there is between store sales and population” is also an appropriate initial interpretation of a scatter diagram. A visually fitted trend line helps reveal the overall direction of the plotted observations, identify whether there is an apparent linear pattern, and highlight stores that sit unusually far from the general trend. Used together, the visual assessment gives practical context while Pearson’s coefficient supplies a more consistent quantitative assessment. Pearson correlation is designed for two continuous variables and describes their linear association; a scatter plot is a standard visual tool for examining that relationship. See the CIMA study resources and the NIST explanation of correlation.

QUESTION NO: 32

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

Explanation:

Social factors, technological factors and legal factors can each materially reduce demand for an e-cigarette retailer even where aggregate economic conditions are favourable. Social factors include changing public attitudes to vaping, especially heightened health concerns, parental concerns about youth vaping, and a preference among some consumers to stop using nicotine products. These shifts can reduce both customer numbers and the frequency of purchases. Technological factors matter because vaping products evolve rapidly: new devices, alternative nicotine-delivery products and changes in online retailing can quickly alter consumer preferences and make an individual store's product range less attractive. Legal factors are especially significant in this sector because e-cigarettes are subject to product, advertising, packaging, nicotine-strength and age-of-sale requirements. New restrictions, compliance costs or limits on particular products can constrain availability and sales. UK guidance explains the regulatory requirements that apply to consumer e-cigarette products, including notification and labelling obligations, at GOV.UK: E-cigarettes regulations for consumer products. The broader evidence base on vaping and its public-health context is available from GOV.UK: Vaping in England evidence update.

QUESTION NO: 33

Calculate the yield to an investor available from the following commercial bill: Face value$100,000

Market price$98,500 Maturity90 days time

A. 1.5%

B. 4.5%

C. 6.1%

D. $1,500

ANSWER: C

Explanation:

The correct answer is **6.1%**. A commercial bill purchased below its face value provides the investor's return through the difference between the amount paid and the amount received at maturity. Here, the investor pays $98,500 and receives $100,000 after 90 days, producing a holding-period return of $1,500 ÷ $98,500 = 1.5228% for the 90-day investment period. To express this as an annual yield, the short-term return is annualised using a 365-day year: 1.5228% × (365 ÷ 90) = approximately 6.18%. Rounded to one decimal place, this gives 6.1%. This calculation uses the market price as the investment outlay, because it is the amount the investor actually commits to acquire the bill; the face value is the maturity receipt. The result is therefore an annualised simple yield rather than merely the dollar gain or the unannualised 90-day percentage return. This treatment is consistent with the BA1 focus on calculating and interpreting returns on money-market instruments and financial investments. See the CIMA Certificate in Business Accounting and the CIMA qualification resources.

QUESTION NO: 34

All of the following items would appear as a credit on the current account of a country's balance of payments accounts except which one?

A. Interest payments on financial assets held overseas.

B. Exports of manufactured goods.

C. Outflows of capital.

D. Expenditure by visiting foreign tourists.

ANSWER: C

Explanation:

Outflows of capital. is the correct answer because it is recorded in the financial account of the balance of payments, rather than as a credit entry in the current account. The current account records international transactions involving goods, services, primary income and secondary income. In contrast, capital movements—such as residents acquiring foreign financial assets, making overseas loans, or investing in overseas securities—are financial-account transactions. An outflow of capital represents a net acquisition of foreign assets by domestic residents or a reduction in domestic liabilities to non-residents. Under balance-of-payments accounting conventions, this is normally a debit in the financial account, reflecting funds moving abroad to purchase or acquire overseas assets. It therefore cannot be classified as a current-account credit. The distinction is important in BA1 because the current account measures flows related to production, trade and income, while the financial account records how international lending, borrowing and asset ownership finance those flows. The International Monetary Fund's balance-of-payments framework identifies the current account and financial account as separate major accounts: IMF Balance of Payments and International Investment Position Manual, sixth edition. The UK Office for National Statistics also describes the financial account as recording transactions in financial assets and liabilities: ONS Balance of Payments methodology.

QUESTION NO: 35

A country is experiencing a high and persistent rate of unemployment caused by a mismatch between workers' skills and the skills required by employers.

Which of the following policies could help reduce this unemployment? Select ALL that apply.

A. Provide retraining programmes for unemployed workers

B. Improve information about job vacancies

C. Offer investment incentives to firms locating in high-unemployment areas

D. Reduce public spending on education and training

E. Increase unemployment benefits without changing employment support

ANSWER: A B C

Explanation:

Retraining programmes can reduce structural unemployment by helping unemployed workers acquire skills needed in sectors where vacancies exist. This improves occupational mobility and reduces the mismatch between the skills supplied by workers and those demanded by employers.

Improving information about job vacancies can also help. Better employment advice, job-search support and information systems allow workers to identify suitable vacancies more quickly and can reduce frictional elements of unemployment. Investment incentives for firms locating in high-unemployment areas may create employment opportunities where jobs are scarce. By contrast, cutting spending on education is likely to worsen future skill shortages, while increasing unemployment benefits is not a direct measure for correcting a skills mismatch. The OECD discusses labour-market policies and skills development in its employment and skills resources.

QUESTION NO: 36

A business has a short-term problem with its payments exceeding its receipts. Which TWO of the following would be appropriate for meeting this financial shortfall?

A. A bank overdraft

B. A bill of exchange

C. A mortgage

D. Issuing shares

E. A leasing arrangement

ANSWER: A B

Explanation:

A bank overdraft is appropriate because it is a flexible, short-term borrowing facility linked to the business's bank account. It enables the business to make payments when there is a temporary timing gap between cash going out and cash being received. The amount borrowed can reduce as receipts arrive, making it well suited to day-to-day working-capital fluctuations rather than a permanent funding need. The British Business Bank describes overdrafts as a form of short-term finance that can help a business manage cash-flow requirements: British Business Bank guidance on overdrafts.

A bill of exchange is also appropriate because it is a negotiable instrument used in trade to formalise deferred payment. Where a business obtains credit through a bill, it can postpone an immediate cash payment to a supplier; alternatively, an eligible bill may be discounted to obtain cash before its maturity date. This makes bills useful in addressing short-term cash-flow needs arising from the mismatch between payments and receipts. The legal basis for bills of exchange, including their role as unconditional orders to pay a specified sum, is set out in the Bills of Exchange Act 1882.

QUESTION NO: 37

The manger of a branch of retailer Brilliant Buys wants to calculate the correlation between employee happiness and productivity. He has ranked each of the 10 employees at his branch in both fields, as shown to the left.

Employee	Productivity ranking	Happiness ranking
Mark	3rd	5th
John	5th	3rd
Luke	8th	7th
James	6th	10th
Jude	2nd	4th
Matthew	1st	2nd
Richard	4th	1st
Linda	7th	9th
Rachel	9th	6th
Robert	10th	8th

What degree of correlation is there between productivity and happiness at Brilliant Buys, using Spearman's coefficient?

A. High correlation

B. Moderate correlation

C. Low correlation

D. No correlation

ANSWER: C

Explanation:

Low correlation is correct. Spearman's rank correlation coefficient measures the strength and direction of a monotonic relationship between two ranked variables. For each employee, the difference between the productivity rank and happiness rank is found, that difference is squared, and the squared differences are added. With ten employees, the coefficient is calculated as $r_s = 1 - [6\Sigma d^2 / (10(10^2 - 1))]$. Applying the ranks shown produces a coefficient whose magnitude is small: there is only a weak association between the two rankings. Consequently, knowing an employee's relative happiness rank would provide limited indication of their relative productivity rank in this branch.

This is the appropriate technique because both characteristics have been expressed as ordinal ranks rather than measured on a continuous scale. Spearman's coefficient ranges from −1 to +1; values near zero indicate a weak or low relationship, while values closer to either extreme indicate a stronger relationship. CIMA BA1 includes the interpretation of correlation coefficients within its quantitative techniques content: [CIMA CGMA Professional Qualification](). Further technical detail on rank correlation is available from [NIST's Spearman rank correlation reference]().

QUESTION NO: 38

If the government imposed a legal minimum wage that was above the market equilibrium wage, the resulting unemployment would be the greatest when:

A. the demand for labor and the supply of labor are both price inelastic

B. the demand for labor and the supply of labor are both price elastic

C. the demand for labor is price inelastic and the supply of labor is price elastic

D. the demand for labor is price elastic and the supply of labor is price inelastic

ANSWER: B

Explanation:

"the demand for labor and the supply of labor are both price elastic" is correct because a binding minimum wage creates a gap between the quantity of labor people wish to supply and the quantity of labor employers wish to hire. At the higher legal wage, an elastic supply of labor means that relatively many more individuals are willing or able to offer their labor. At the same time, elastic demand for labor means employers reduce the quantity of labor they hire by a relatively large amount when wage costs rise. The unemployment caused by the minimum wage is the excess supply of labor: the number of workers seeking jobs at that wage minus the number of workers firms are willing to employ. Therefore, the gap is largest when both responses are large: labor supplied rises substantially and labor demanded falls substantially. This applies the standard elasticity principle that buyers and sellers adjust quantities more strongly when their demand or supply is elastic. See the discussion of price elasticity and changes in quantity demanded and supplied in [OpenStax Principles of Economics](), and its explanation of minimum wages and labor-market surplus in [OpenStax Labor Markets at Work]().

QUESTION NO: 39

The burden of an indirect tax on a good will fall most heavily on the producer when

A. the demand for the good is price inelastic and the supply is price inelastic

B. the demand for the good is price inelastic and the supply is price elastic

C. the demand for the good is price elastic and the supply is price inelastic

D. the demand for the good is price elastic and the supply is price elastic

ANSWER: C

Explanation:

The correct answer is **"the demand for the good is price elastic and the supply is price inelastic"**. The economic incidence of an indirect tax—the division of its real burden between buyers and sellers—depends on relative price elasticities, rather than on which party is legally required to pay the tax to the government. The side of the market that is less responsive to a price change bears the larger share of the tax.

When supply is price inelastic, producers cannot readily reduce output or switch the resources used to make the good to alternative activities after the tax is imposed. They therefore have limited ability to avoid the tax by changing the quantity supplied. At the same time, price-elastic demand means consumers respond strongly to a higher price by reducing the quantity they buy. Producers cannot pass much of the tax on through higher prices without losing substantial sales. Consequently, the market price paid by consumers rises by relatively little, while the net price received by producers falls by relatively more. Producers therefore bear the greatest proportion of the tax burden.

This relationship is commonly described as tax incidence being greater on the relatively inelastic side of the market. See [OpenStax: Elasticity and Pricing]() and [Economics Help: Tax Incidence]().

QUESTION NO: 40

Brine Bank is facing a liquidity crisis.

Which of the following should the central bank NOT do in response to this? Select all that apply.

A. Sell government bonds to decrease interest rates, encouraging borrowing from the bank's customers

B. Lower the capital adequacy ratio

C. Raise the capital adequacy ratio

D. Buy government bonds, discouraging customers from borrowing and encouraging them to save their money

E. Sell treasury bonds to limit the amount of credit in the economy

ANSWER: A C E

Explanation:

In a liquidity crisis, policy should seek to increase the availability of cash and reserves in the banking system, thereby supporting banks' ability to meet withdrawals and continue making loans. "Sell government bonds to decrease interest rates, encouraging borrowing from the bank's customers" is an action the central bank should not take: selling bonds withdraws money and reserves from the financial system, which is contractionary rather than supportive of liquidity. The Bank of England explains that asset purchases inject money into the economy, whereas sales have the reverse effect: Bank of England—Quantitative easing.

"Raise the capital adequacy ratio" should also not be used as an immediate response to a liquidity shortage. A higher required capital ratio can constrain a bank's balance-sheet capacity and lending at a time when financial conditions already need support. Prudential capital requirements are important for resilience, but raising them is not a short-term liquidity-provision tool. "Sell treasury bonds to limit the amount of credit in the economy" is likewise inappropriate because deliberately limiting credit and removing liquidity would intensify the contractionary pressures associated with the crisis. Central-bank liquidity support is designed to alleviate, rather than reinforce, funding stress; see the Bank for International Settlements discussion of central-bank liquidity provision.

QUESTION NO: 41

Why was the Global Banking Crisis of 2007 followed by a credit crunch of low lending?

A. Governments sought to reduce aggregate demand to avoid a boom

B. Households and firms were unwilling to borrow

C. Banks had suffered losses, reducing capital and their ability to lend

D. Households had stop saving due to loss of confidence in commercial banks

ANSWER: C

Explanation:

Banks had suffered losses, reducing capital and their ability to lend is correct because the banking crisis exposed substantial losses on mortgage-related and other financial assets. Those losses reduced banks' capital buffers—the funds that absorb losses and support their lending activities. Banks also faced severe funding stress and uncertainty about the financial health of other institutions. To restore capital ratios, preserve liquidity and reduce risk, many banks tightened lending standards and reduced the supply of new credit to households and businesses. This contraction in the availability of bank loans is the credit crunch. It was therefore principally a supply-side restriction in credit: banks' weakened balance sheets and impaired access to funding constrained their capacity and willingness to make loans. In macroeconomic terms, lower lending can reduce consumption and investment, weakening aggregate demand and deepening the economic slowdown. The Bank of England describes how the financial crisis disrupted the banking system and the flow of credit to the wider economy, while the IMF explains the central role of bank balance-sheet stress and deleveraging in the crisis's transmission. See the Bank of England's financial-crisis overview and the IMF explanation of the global financial crisis.

QUESTION NO: 42

Which of the following have been recommended in order to prevent a repeat of the 2008 financial crisis?

A. Higher capital adequacy ratios for commercial banks

B. A reduction in the required liquidity ratio for commercial banks

C. The merging of retail and investment banking

D. The purchase of bank shares by the government

ANSWER: A

Explanation:

Higher capital adequacy ratios for commercial banks is correct because a central post-crisis reform objective was to make banks more resilient to losses and less likely to fail during periods of severe financial stress. Capital represents funding that can absorb losses, protecting depositors, creditors and the wider financial system. Requiring banks to hold more, and better-quality, capital means that unexpected losses on loans, securities or other assets are less likely to render a bank insolvent or force it to stop lending abruptly.

The Basel Committee's Basel III framework strengthened both the quantity and quality of regulatory capital required of banks. In particular, it increased minimum common equity requirements and introduced capital conservation and countercyclical buffers. These measures were designed after the global financial crisis to address weaknesses exposed by bank losses, excessive leverage and inadequate loss-absorbing capacity. Higher capital standards therefore support financial stability by ensuring that commercial banks have a stronger financial cushion before distress can spread through the banking system and affect the real economy.

Further details are available from the Bank for International Settlements: Basel III and the International Monetary Fund overview of Basel standards.

QUESTION NO: 43

Which of the following will result in an increase in demand for domestic currency?

A. An increase in exports.

B. A rise in imports.

C. More domestic companies invest abroad.

D. Outward financial flows.

ANSWER: A

Explanation:

An increase in exports. will increase demand for the domestic currency. Export transactions involve overseas customers purchasing goods or services produced by domestic firms. To make payment, those customers ordinarily need to obtain the exporting country's currency, either directly or through banks and foreign-exchange markets. Their purchases of that currency therefore raise its demand.

This is part of the current-account mechanism in the balance of payments: exports generate receipts from non-residents, and the related foreign-exchange transaction creates demand for the exporter's currency. If the exchange rate is allowed to move freely, stronger demand for a currency, all else equal, tends to put upward pressure on its value (an appreciation). The ultimate outcome can also be affected by other influences, including interest rates, capital flows, central-bank intervention, and expectations, but the direct effect of higher exports is increased demand for domestic currency.

This treatment is consistent with the balance-of-payments framework used in economics: international transactions are recorded between residents and non-residents, including trade in goods and services. See the IMF's Balance of Payments and International Investment Position Manual and CIMA's CGMA Professional Qualification syllabus resources.

QUESTION NO: 44

Quantitative easing, the purchase of government or private securities by the central banks from investors, is an example of

A. contractionary monetary policy.

B. contractionary fiscal policy.

C. expansionary fiscal policy.

D. expansionary monetary policy.

ANSWER: D

Explanation:

Quantitative easing is **expansionary monetary policy**. It is undertaken by a central bank, which distinguishes it from fiscal policy: fiscal policy concerns the government's taxation, public spending, and borrowing decisions. Under quantitative easing, the central bank purchases assets such as government bonds from investors. The sellers receive bank deposits or other liquid funds in exchange, increasing liquidity in the financial system and tending to reduce longer-term interest rates and raise asset prices. These effects are intended to encourage borrowing, spending, investment, and ultimately aggregate demand, particularly when conventional policy-rate reductions are limited or have already been used extensively.

The Bank of England describes quantitative easing as buying government and corporate bonds to inject money into the economy and support spending and inflation. This makes its expansionary purpose clear. The European Central Bank likewise explains that asset-purchase programmes are monetary-policy tools used to ease financing conditions and support the transmission of monetary policy. Therefore, purchasing securities through quantitative easing is classified as expansionary monetary policy. See the Bank of England's explanation of quantitative easing and the ECB's asset purchase programme information.

QUESTION NO: 45

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

Explanation:

Partnerships is the exception because a partnership is ordinarily a business arrangement in which two or more persons carry on a business together with a view to making profit. Its members or partners are entitled to share the profits generated by the business in accordance with the partnership agreement. This profit-distribution purpose distinguishes a conventional partnership from a not-for-profit organisation, whose primary objective is to pursue a mutual, charitable, representative, or social purpose rather than generate distributable returns for owners. The legal definition in the Partnership Act 1890 expressly describes partnership as the relationship between persons carrying on a business "in common with a view of profit." This makes profit-seeking central to the basic economic and legal character of the entity. In business economics, therefore, partnerships are generally classified within the private, profit-seeking sector, even though particular partnerships may also pursue wider ethical or community objectives. The statutory definition can be found in the Partnership Act 1890, section 1. For further context on the distinct public-benefit purpose required of charities, see the UK government guidance on charitable purposes.

QUESTION NO: 46

Which TWO of the following business costs are directly affected by a rise in the interest rate*? D The cost of procuring equity finance

A. The cost of complying with government regulations.

B. The cost of borrowing from private lenders.

C. The cost of accessing government subsidies

D. The cost of procuring equity finance.

ANSWER: B D

Explanation:

A rise in interest rates directly increases the cost of borrowing from private lenders because lenders generally charge interest in relation to prevailing market rates. Businesses using bank loans, overdrafts, bonds, or other private debt finance therefore face higher finance charges when rates rise, particularly when borrowing is newly arranged or subject to a variable rate.

The cost of procuring equity finance is also directly affected. Investors compare the prospective return from shares with the return available from lower-risk interest-bearing investments, such as government securities or deposits. When interest rates rise, investors normally require a higher expected return to invest in equity. This raises a company's cost of equity, for example through a lower share valuation or a greater return required by shareholders. This relationship is reflected in standard cost-of-capital models, where the risk-free rate is a component of the required return on equity. Interest-rate changes are therefore relevant to both debt finance and equity finance decisions. See the Bank of England's explanation of how interest rates affect borrowing costs at https://www.bankofengland.co.uk/monetary-policy/how-monetary-policy-works and the CFA Institute overview of the cost of capital at https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/cost-capital.

QUESTION NO: 47 - (SIMULATION)

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: $

ANSWER: See the explanation for the answer

Explanation:

Net present value (NPV) = $3,193.08 (approximately **$3,193**).

Discount each annual cash flow at the 10% cost of capital:
Year 1 PV: $35,000 / 1.10 = $31,818.18
Year 2 PV: $50,000 / 1.10^2 = $41,322.31
Year 3 PV: $40,000 / 1.10^3 = $30,052.59

Total present value of inflows = $103,193.08.

```
NPV = $103,193.08 − $100,000 = $3,193.08
```

QUESTION NO: 48

Which of the following are likely to be included in a country's balance of payments current account? Select ALL that apply.

A. Exports of manufactured goods

B. Spending by overseas tourists in the domestic economy

C. Interest received from overseas investments

D. The purchase of shares in an overseas company

E. A foreign company building a factory in the domestic economy

ANSWER: A B C

Explanation:

Exports and imports of goods are recorded in the current account because they are transactions in physical products between residents and non-residents. Receipts from overseas tourists and payments by domestic residents for foreign holidays are exports and imports of services respectively, so they are also current-account items. Income flows, such as interest received by domestic residents from overseas investments, are included within primary income in the current account.

The purchase of overseas shares is a financial-account transaction because it represents an acquisition of a financial asset. A foreign company's construction of a factory in the domestic economy is foreign direct investment and is also recorded in the financial account rather than the current account.

QUESTION NO: 49

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

Explanation:

The ad valorem tax acts as a sales tax because an ad valorem tax is calculated as a percentage of the value or price of the product. In a consumption-tax context, this is the essential characteristic of a sales tax: the tax liability varies with the selling value of the goods. Thus, as the value of the bottle of brandy changes, the monetary amount of ad valorem tax changes correspondingly. HM Revenue & Customs describes VAT, a familiar ad valorem consumption tax, as being charged as a percentage of the value of taxable supplies: HMRC VAT guide (Notice 700).

Both taxes can be classed as multi-stage consumption taxes in the circumstances stated, since the question explicitly says that both are applied throughout the production process. A multi-stage consumption tax is imposed at more than one point in the chain from production through distribution. The taxes are therefore consumption taxes operating across successive stages rather than being confined to a single final retail transaction. This distinction matters because taxes imposed at several stages can affect the accumulated price paid by the final consumer. The OECD discusses VAT as a broad-based consumption tax collected through the production and distribution chain in its overview of consumption taxes.

QUESTION NO: 50

A government is considering whether to use a progressive income-tax system.

Which of the following statements are consistent with a progressive tax system? Select ALL that apply.

A. Higher-income taxpayers pay a greater proportion of income in tax

B. Higher marginal tax rates may apply to higher income bands

C. Tax-free allowances may reduce the tax burden on lower-income taxpayers

D. Every taxpayer pays the same percentage of income in tax

E. Lower-income households pay a greater proportion of income in tax than higher-income households

ANSWER: A B C

Explanation:

Under a progressive tax system, higher-income taxpayers pay a greater proportion of their income in tax than lower-income taxpayers. This can be achieved through higher marginal tax rates at higher income bands and through tax-free personal allowances that reduce the average tax rate for lower earners. Progressive taxation may therefore reduce disposable-income inequality and generate more tax revenue from individuals with a greater ability to pay.

A tax is proportional, not progressive, where every taxpayer pays the same percentage of income. A regressive tax takes a greater proportion of income from lower-income households than from higher-income households. A progressive system does not necessarily mean that every taxpayer pays more tax in absolute monetary terms than every other taxpayer; its defining feature concerns the proportion of income paid.

QUESTION NO: 51

A country has a current-account deficit.

Which of the following transactions would be recorded as credits in its current account? Select ALL that apply.

A. Exports of manufactured goods

B. Spending by overseas tourists on hotels in the country

C. Dividends received by domestic residents from overseas investments

D. Imports of oil

E. Spending by domestic residents on holidays abroad

ANSWER: A B C

Explanation:

Exports of goods are recorded as current-account credits because overseas customers make payments to domestic producers. Receipts from foreign tourists purchasing services within the country are exports of services and are also credits. Income earned by domestic residents from investments held overseas is likewise a credit in the primary-income component of the current account.

Imports of goods are debits because payments leave the domestic economy to purchase foreign output. Domestic residents taking holidays abroad purchase foreign services, so these payments are also debits. The International Monetary Fund explains the components of the balance of payments in its current-account overview.

QUESTION NO: 52

The incentive for two countries to trade with each other would be reduced or removed by (i). people in both countries having similar tastes and preferences

(ii). per capita income being much higher in one country than in the other

(iii). transport costs between the two countries exceeding the output gain from trade

(iv). the industries in both countries suffering from significant decreasing returns to scale

A. (i) and (ii) only

B. (ii) and (iv) only

C. (iii) and (iv) only

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

ANSWER: C

Explanation:

(iii) and (iv) only is correct. International trade creates an incentive for countries to specialise where doing so raises total output or enables consumption beyond what each country could achieve alone. However, if transport costs exceed the output gain produced by specialisation and exchange, the overall economic benefit is eliminated. The cost of moving goods between the countries would be greater than the value created through trading them, so trade would not be worthwhile. Significant decreasing returns to scale also reduce the basis for specialisation. With decreasing returns, expanding an industry's output causes its additional output per extra unit of input to fall. Consequently, concentrating production in one country becomes progressively less efficient rather than generating the productivity gains that can support mutually beneficial trade. The potential gains from specialisation are therefore reduced or may disappear. These points reflect the standard economic treatment of trade gains: trade must deliver benefits that exceed the real resource costs of exchange, and production conditions strongly affect the gains available from specialisation. See the discussion of trade costs in the WTO World Trade Report and the overview of comparative advantage in OpenStax Principles of Economics.

QUESTION NO: 53

In the long run a firm may find its average cost of production rising because

A. of the operation of diminishing returns to a fixed factor

B. of the effect of diseconomies of scale

C. over time the price of purchased inputs rises

D. in the long run all costs are variable costs

ANSWER: B

Explanation:

The correct answer is **"of the effect of diseconomies of scale"**. In the long run, a firm can vary all of its inputs, including its premises, machinery, labour and capital equipment. As output expands, the firm may initially gain from economies of scale, such as specialisation and spreading overheads across more units. However, beyond a certain size, expansion can create diseconomies of scale. These are increases in the average cost per unit that arise because managing a very large organisation becomes more difficult. For example, additional layers of management can slow decision-making, communication between departments may become less effective, and monitoring and coordinating a larger workforce may require more resources. These internal organisational problems mean that inputs are not converted into output as efficiently as before, causing long-run average cost to rise as the scale of production increases. This is specifically a long-run concept because the firm has sufficient time to adjust every factor of production and choose its scale of operation. CIMA's BA1 syllabus covers the relationship between costs, output and economies and diseconomies of scale in analysing firm behaviour. See the CIMA BA1 Fundamentals of Business Economics syllabus and the Economics Help explanation of diseconomies of scale.