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CIMAPRA17-BA1-1 Exam

Fundamentals of Business Economics

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Questions
& Answers

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Topic 1, Exam Pool A

Question: 1

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

Year 1 \$35,000

Year 2 \$50,000

Year 3 \$40,000

The cost of capital to the business is 10%

The net present value of the project is: \$

- A. 3155, 3150, 3159, 3157, 3153, 3152, 3158, 3160, 3156, 3154, 3151
- B. 3155, 3150, 3159, 3158, 3153, 3152, 3158, 3160, 3156, 3154, 3151
- C. 3155, 3150, 3159, 3157, 3153, 3150, 3158, 3160, 3156, 3154, 3151
- D. 3153, 3150, 3159, 3157, 3153, 3152, 3158, 3160, 3156, 3154, 3151

Answer: A

Explanation:

Question: 2

A business was selling 20,000 units of its product per month at a price of \$10. When it lowers its price to \$9 it finds that its sales rise to 24,000 units per month.

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

- A. -2
- B. -3
- C. -4
- D. -5

Answer: A

Explanation:

Question: 3

A bond has a coupon rate of 7%, a nominal value of \$100 and a market price of \$140

The percentage running yield is %

- A. 5
- B. 6
- C. 7
- D. 8

Answer: A

Explanation:

Question: 4

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

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

The profit maximizing level of output is

- A. 4
- B. 5
- C. 7
- D. 8

Answer: A

Explanation:

Question: 5

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

- A. indirect taxes are greater than government subsidies
- B. there is a net inflow of factor payments on the balance of payments
- C. the country's imports are greater than its exports
- D. government tax income is greater than government expenditure

Answer: B

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