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Fundamentals of Business Economics

Questions & Answers PDF

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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

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

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

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

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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