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*CIMA-BA1
Fundamentals of Business Economics*

Questions & Answers PDF

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Question: 1

Which of the following is most likely to increase rather than to reduce market imperfections?

- A. An increase in the number of buyers and sellers in a market
- B. A lowering of entry barriers separating markets
- C. Informative advertising giving way to persuasive advertising
- D. Employers making greater use of the Internet to advertise job vacancies

Answer: C

Question: 2

Which of the following statements is always true for a merit good?

- A. It is characterized by non-excludability and non-rivalry
- B. When consumed, the social benefits exceed the private benefits
- C. Zero negative externalities result from the consumption of a merit good
- D. It is provided free by the government

Answer: B

Question: 3

Merit goods are typically characterized by

- A. non-excludability in consumption
- B. external social costs in production
- C. external social benefits in consumption
- D. non-rivalry in consumption

Answer: C

Question: 4

Production of a good is in the public interest if

- A. Social benefits are greater than social costs
- B. Private benefits equal private costs
- C. External benefits equal external costs
- D. Social costs are greater than private costs

Answer: A

Question: 5

Which of the following statements about public goods is correct?

- A. Public goods are defined as those goods provided by the state
- B. Public goods are examples of free goods
- C. Public goods are characterized by the free-rider problem
- D. The problem of scarcity does not affect the provision of public goods

Answer: C

Question: 6

Which of the following is NOT a characteristic of a pure public good?

- A. It is not possible to exclude non-payers from enjoying the good
- B. It is always provided by the state or public sector
- C. It does not get used up by more people enjoying it
- D. It has no price

Answer: B

Question: 7

If a government, on grounds of economic efficiency, were to levy a tax on an industry because of the pollution caused by production in the industry, the tax should be equal to

- A. the amount required to eliminate consumer demand for the product
- B. the excess profits earned by the industry
- C. the costs of clearing up previous pollution caused
- D. the difference between the private and social costs of production

Answer: D

Question: 8

If the production of a good is characterized by significant external social costs, resource allocation can be improved by the government:

- A. imposing an indirect tax on the good
- B. paying a subsidy to the producers of the good
- C. paying a subsidy to the consumers of the good
- D. increasing the tax on the profits of the producing firms

Answer: A

Question: 9

The main purpose of government competition policy is to

- A. Prevent mergers between large companies
- B. Restrict anti-competitive behavior by firms
- C. Limit the ability of firms to secure long run excess profits
- D. Enforce competition by breaking up large firms

Answer: B

Question: 10

Which of the following is an example of regulation as a form of government intervention in the economy?

- A. The government requiring that seat belts are fitted in all coaches and regularly tested
- B. The government announcing the abolition of rules which restrict the number of commercial radio stations allowed by law to operate
- C. The government encouraging the General Medical Council to discipline doctors judged to be professionally negligent
- D. The government selling a state-owned industry such as Air Traffic Control to private ownership

Answer: A



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