CIMA BA1 Business Economics

Mock exam: 60 questions in 120 minutes, with an answer key and explanations

How to use this mock

- Set a timer for **120 minutes** and answer every question without notes. Write your answers in the grid on the next page.
- Mark your answers using the answer key, then read the explanation for every question you got wrong or guessed.
- The questions cover every section of the syllabus, in proportion to the GoQualified question bank for BA1.
- Prefer to sit it on screen? The **Exam Sim** on **goqualified.co.uk/cima/ba1/** times you, marks the paper and shows your weakest section.
- All questions are original GoQualified practice questions, not past exam questions.

Free from GoQualified. Questions start on page 3; the answer key and explanations follow them. Download the latest version from goqualified.co.uk/cima/ba1/.

Your answers

1 _____	13 _____	25 _____	37 _____	49 _____
2 _____	14 _____	26 _____	38 _____	50 _____
3 _____	15 _____	27 _____	39 _____	51 _____
4 _____	16 _____	28 _____	40 _____	52 _____
5 _____	17 _____	29 _____	41 _____	53 _____
6 _____	18 _____	30 _____	42 _____	54 _____
7 _____	19 _____	31 _____	43 _____	55 _____
8 _____	20 _____	32 _____	44 _____	56 _____
9 _____	21 _____	33 _____	45 _____	57 _____
10 _____	22 _____	34 _____	46 _____	58 _____
11 _____	23 _____	35 _____	47 _____	59 _____
12 _____	24 _____	36 _____	48 _____	60 _____

Questions

Question 1

A country has a current account deficit. This means that:

A The value of its imports of goods and services exceeds the value of its exports
B The government has spent more than it collected in taxation
C The central bank has exhausted its foreign currency reserves
D The country's currency has been formally devalued

Question 2

During a recession, which combination of policies would a government typically use to stimulate the economy?

A Raising taxes and cutting government spending
B Raising interest rates and reducing the money supply
C Increasing taxes and raising interest rates
D Cutting taxes and increasing government spending

Question 3

Which of the following is a major driver of globalisation?

A Improvements in communications and transport technology
B Increased trade barriers between countries
C A decline in international trade agreements
D Greater restrictions on the movement of capital

Question 4

Which international institution's primary role is to promote free trade and help resolve trade disputes between nations?

A The World Trade Organization (WTO)
B The International Accounting Standards Board (IASB)
C A national central bank
D A regional stock exchange

Question 5

Which of the following is an example of a supply-side policy?

A Increasing government spending to boost demand
B Cutting interest rates to encourage borrowing
C Investing in education and training to raise productivity
D Raising income tax to reduce a budget deficit

Question 6

A country's retail prices index stood at 250 last year and 260 this year. What is the rate of inflation over the year, to one decimal place?

A 10.0%
B 2.6%
C 6.0%
D 4.0%

Question 7

Which international institution's primary role is to promote global monetary cooperation and provide financial assistance to countries facing balance of payments difficulties?

A The International Monetary Fund (IMF)
B The World Trade Organization (WTO)
C The European Central Bank (ECB)
D A national stock exchange

Question 8

A decision by a central bank to reduce interest rates in order to stimulate economic activity is an example of:

A Expansionary monetary policy
B Contractionary monetary policy
C Expansionary fiscal policy
D A supply-side policy

Question 9

A depreciation of a country's currency is most likely to:

A Make its exports more expensive to foreign buyers
B Have no meaningful effect on the country's trade balance
C Improve the current account by making exports cheaper, imports dearer
D Reduce the domestic price of imported goods

Question 10

The multiplier effect in macroeconomics describes how:

A Taxes multiply in proportion as household income rises
B Prices rise in proportion to the money supply
C Interest rates magnify the total cost of borrowing money
D An initial spending change produces a larger change in national income

Question 11

Real gross domestic product differs from nominal GDP in that real GDP:

A Is adjusted to remove the effect of inflation
B Includes the value of imports
C Is always larger than nominal GDP
D Measures only government spending

Question 12

Which of the following is a potential disadvantage of globalisation for a national economy?

A Access to significantly larger export markets abroad
B Greater vulnerability to economic shocks from other countries
C The ability to import a wider range of goods
D Increased inflows of foreign investment

Question 13

The imposition of a tariff on imported goods is most likely to:

A Reduce the domestic price of those goods
B Increase the overall volume of imports entering the country
C Raise the domestic price of goods, protecting domestic producers
D Have no meaningful effect on domestic producers at all

Question 14

A recession is most commonly defined as:

A Two consecutive quarters of negative economic growth
B A single month of rising unemployment figures
C Any fall at all in the rate of inflation
D A period of rising share prices

Question 15

Which of the following is an injection into the circular flow of income?

A Investment by firms
B Household savings
C Taxation
D Spending on imports

Question 16

The principal-agent problem in a company arises primarily because:

A Shareholders who own the company and directors who run it may have different objectives
B Companies are required to pay corporation tax on their profits
C The government regulates the prices that some companies can charge
D Employees are legally entitled to a minimum wage

Question 17

When the price of a product rises from £10 to £12, the quantity demanded falls from 1,000 units to 900 units. What is the price elasticity of demand (to one decimal place, ignoring sign)?

A 0.5
B 2.0
C 0.1
D 1.0

Question 18

A factory discharges pollution into a river, imposing clean-up costs on the local community. In economic terms this is an example of:

A A positive externality
B An internal economy of scale
C A negative externality
D A maximum price control

Question 19

Shareholder wealth is best measured by:

A The total number of shares the company has issued
B The annual salary paid to the company's directors
C The market value of the shareholders' investment in the company
D The company's total sales revenue for the year

Question 20

A successful advertising campaign increases consumer demand for a product at every price level. On a supply and demand diagram, this is best represented by:

A A movement up along the existing demand curve
B A rightward shift of the entire demand curve
C A leftward shift of the supply curve
D A movement down along the existing demand curve

Question 21

When the price of a product rises from £20 to £24, the quantity supplied increases from 500 units to 575 units. What is the price elasticity of supply (to two decimal places)?

A 0.75
B 1.33
C 0.15
D 0.20

Question 22

Which of the following is an example of an external economy of scale?

A A firm spreading its fixed costs over a larger output
B A firm obtaining cheaper finance because of its larger size
C The development of a specialised local labour force serving a whole industry
D A firm's managers becoming more specialised as the firm grows

Question 23

Which of the following is most likely to help align the interests of a company's directors with those of its shareholders?

A Paying directors a fixed salary regardless of company performance
B Removing all performance targets from directors' contracts
C Granting directors share options linked to company performance
D Increasing the company's corporation tax payments

Question 24

A market dominated by a small number of large, interdependent firms is known as:

A Perfect competition
B A monopoly
C An oligopoly
D Monopolistic competition

Question 25

A good for which demand falls as consumer incomes rise has:

A A high positive income elasticity of demand
B Unitary income elasticity of demand
C Zero income elasticity of demand
D A negative income elasticity of demand

Question 26

A profit-maximising firm will choose the level of output at which:

A Total revenue is at its maximum
B Average cost is at its minimum
C Marginal cost equals marginal revenue
D Fixed costs equal variable costs

Question 27

Monopolistic competition is a market structure characterised by:

A A single seller facing no competitors at all
B A few large, interdependent firms dominating the market
C Identical products sold by price-taking firms
D Many firms selling differentiated products, with low entry barriers

Question 28

Which of the following is an internal stakeholder of a company?

A Its employees
B Its customers
C The government
D Its suppliers

Question 29

Which of the following would cause the demand curve for a normal good to shift to the right?

A A fall in consumer incomes
B A rise in consumer incomes
C An increase in the good's own price
D A fall in the good's own price

Question 30

When the price of product A rises by 20%, the quantity demanded of product B rises by 10%. What is the cross elasticity of demand between the two products?

A 2.0
B -0.5
C -2.0
D 0.5

Question 31

The primary objective of a public sector body such as a state-funded hospital is most likely to be:

A To maximise profit specifically for its shareholders
B To maximise its overall share of the market
C To provide a public service efficiently and effectively
D To maximise the dividends paid to taxpayers

Question 32

A demand curve drawn as a vertical straight line represents demand that is:

A Perfectly elastic
B Unit elastic
C Relatively elastic
D Perfectly inelastic

Question 33

When the price of a product falls from £25 to £20, the quantity demanded rises from 40 units to 50 units. What is the price elasticity of demand (to two decimal places, ignoring sign)?

A 0.80
B 1.00
C 1.25
D 0.25

Question 34

Which of the following is a typical business application of big data analytics?

A Recording routine double-entry bookkeeping transactions
B Preparing a company's statutory financial statements
C Calculating the corporation tax charge for the year
D Identifying patterns in customer behaviour to inform marketing

Question 35

A histogram is most appropriately used to display:

A The frequency distribution of a continuous variable
B The market shares of competing firms as parts of a whole
C A single value tracked over many time periods
D The precise geographic location of customers

Question 36

Using the additive time series model, the trend for a quarter is forecast at 480 units and the seasonal variation for that quarter is −30 units. What is the forecast actual value for the quarter?

A 510
B 450
C 460
D 480

Question 37

Which of the following is a key limitation of forecasts based on past time series data?

A They can never be expressed numerically
B They are only useful for periods in the distant future
C They cannot be calculated without specialist software
D They assume that past patterns and relationships will continue into the future

Question 38

Which of the following is a characteristic of good quality information?

A It is deliberately incomplete in order to save time
B It is relevant to the decision being made
C It is always as detailed as possible regardless of the user's needs
D It is provided only after the decision has been made

Question 39

A cost relationship has been estimated as y = 500 + 8x, where y is total cost in £ and x is the number of units produced. What does the figure 8 represent?

A The fixed cost
B The total cost when no units are produced
C The selling price per unit
D The variable cost per unit

Question 40

The mode of a data set is:

A The middle value when the data are ordered
B The sum of the values divided by their number
C The difference between the highest and lowest values
D The value that occurs most frequently

Question 41

What is the range of the following values: 15, 22, 8, 30 and 12?

A 22
B 30
C 8
D 17.4

Question 42

A bag contains 12 red beads and 8 blue beads. If one bead is selected at random, what is the probability that it is red?

A 0.12
B 0.40
C 0.60
D 1.50

Question 43

A cumulative frequency distribution is most useful for determining:

A The most common single value in a data set
B The exact arithmetic mean of the whole data set
C The number of observations falling below a given value
D The correlation between two variables

Question 44

A data set has a mean of 50 and a standard deviation of 10. What is the coefficient of variation, expressed as a percentage?

A 500%
B 5%
C 20%
D 40%

Question 45

Customer feedback recorded as 'very satisfied', 'satisfied' or 'dissatisfied' is an example of:

A Qualitative data
B Continuous quantitative data
C Discrete quantitative data
D Time series data

Question 46

What is the present value of £10,000 receivable in 2 years' time, using a discount rate of 10% per annum (to the nearest £)?

A £8,000
B £9,091
C £8,264
D £7,513

Question 47

If the pound sterling strengthens against the US dollar, what is the most likely effect on a UK company that exports goods to the United States?

A Its goods become cheaper for US customers, boosting exports
B Its goods become more expensive for US customers, reducing export competitiveness
C There will be no effect on the price US customers pay
D Its costs of importing raw materials from the US will rise

Question 48

Which of the following financial assets is generally considered the most liquid?

A A ten-year corporate bond
B Cash held in a current account
C Shares in an unlisted private company
D A commercial property investment

Question 49

A project requires an initial investment of £10,000 and generates net cash inflows of £6,000 at the end of each of years 1 and 2. Using a discount rate of 10% (year 1 factor 0.909, year 2 factor 0.826), what is the net present value, to the nearest £?

A £410
B £2,000
C £10,410
D £210

Question 50

What is the present value of an annuity of £2,000 receivable at the end of each of the next 3 years, using a discount rate of 10% (3-year annuity factor at 10% = 2.487)?

A £6,000
B £1,653
C £6,620
D £4,974

Question 51

£4,000 is invested for 3 years at a simple interest rate of 5% per annum. What is the total value of the investment at the end of 3 years?

A £4,200
B £4,630
C £4,600
D £12,600

Question 52

The spot exchange rate is £1 = $2.00. US inflation is expected to be 10% and UK inflation 0%. Using purchasing power parity, what is the expected future spot rate?

A $1.82
B $2.20
C $2.10
D $1.80

Question 53

A project costs £20,000 now and is expected to generate £5,000 at the end of each year for 5 years. Using a 5-year annuity factor at 10% of 3.791, what is the net present value?

A -£1,045
B £5,000
C £1,045
D £18,955

Question 54

According to interest rate parity, a currency with a higher interest rate than another currency will tend to trade at:

A A forward premium
B An unchanged forward rate
C A forward discount
D A fixed official rate

Question 55

A project requires an initial investment of £40,000 and generates constant net cash inflows of £10,000 per year. What is the payback period?

A 2 years
B 4 years
C 5 years
D 3 years

Question 56

What is the present value of £5,000 receivable in 4 years' time, using a discount factor of 0.792?

A £6,313
B £5,000
C £20,000
D £3,960

Question 57

An investment pays interest of 3% per quarter. What is the effective annual rate, to one decimal place?

A 12.0%
B 12.6%
C 3.0%
D 6.0%

Question 58

A forward exchange rate is best described as:

A An exchange rate agreed now for a future currency transaction
B The rate quoted for immediate delivery of currency
C The official rate set by a central bank
D The average exchange rate over the past year

Question 59

A proposed project has a positive net present value. In principle, the project should:

A Be rejected, because it is too risky
B Be rejected, because NPV ignores cash flows
C Be deferred indefinitely
D Be accepted, because it is expected to add value

Question 60

£2,000 is invested for 3 years at a compound interest rate of 10% per annum. What is the value at the end of 3 years?

A £2,600
B £2,200
C £2,420
D £2,662

Answer key

1 A	**13** C	**25** D	**37** D	**49** A
2 D	**14** A	**26** C	**38** B	**50** D
3 A	**15** A	**27** D	**39** D	**51** C
4 A	**16** A	**28** A	**40** D	**52** B
5 C	**17** A	**29** B	**41** A	**53** A
6 D	**18** C	**30** D	**42** C	**54** C
7 A	**19** C	**31** C	**43** C	**55** B
8 A	**20** B	**32** D	**44** C	**56** D
9 C	**21** A	**33** C	**45** A	**57** B
10 D	**22** C	**34** D	**46** C	**58** A
11 A	**23** C	**35** A	**47** B	**59** D
12 B	**24** C	**36** B	**48** B	**60** D

Score: count your correct answers out of 60. Then work through the explanations below.

Answers and explanations

Question 1: A The value of its imports of goods and services exceeds the value of its exports

A current account deficit means the value of imports of goods and services exceeds the value of exports (broadly). The idea that the government has spent more than it collected describes a government budget deficit, a fiscal concept rather than a balance of payments one — confusing the two is a common error. An exhausted reserves position and a formal currency devaluation are neither what a current account deficit means, although both can be related consequences or responses.

Section A, Balance of payments · Ref A2a · ba1005

Question 2: D Cutting taxes and increasing government spending

In a recession, expansionary fiscal policy aims to boost aggregate demand: cutting taxes leaves households and firms with more to spend, while increasing government spending injects demand directly. Raising taxes and cutting spending is contractionary fiscal policy, appropriate in a boom. The combinations involving higher interest rates and a reduced money supply tighten monetary policy, which would dampen demand further — the opposite of what a recession calls for.

Section A, Government policy response · Ref A1d · ba1027

Question 3: A Improvements in communications and transport technology

Globalisation has been driven by improved communications and transport technology, which lower the cost and difficulty of operating across borders. The other options would all restrain globalisation rather than drive it: higher trade barriers, fewer trade agreements and tighter capital controls all reduce international integration. The syllabus also notes political realignment and the growth of global industries and institutions as drivers.

Section A, Globalisation · Ref A3a · ba1030

Question 4: A The World Trade Organization (WTO)

The World Trade Organization promotes free trade by encouraging the reduction of trade barriers and providing a framework for resolving trade disputes between member states. The IASB sets accounting standards, a national central bank manages monetary policy and financial stability, and a stock exchange facilitates the trading of securities — none of these has the WTO's trade-promotion and dispute-resolution remit.

Section A, International institutions · Ref A3b · ba1031

Question 5: C Investing in education and training to raise productivity

Supply-side policies aim to improve the productive capacity and efficiency of the economy; investment in education and training raises the skills and productivity of the workforce. Increasing government spending and cutting interest rates are demand-side measures that work on aggregate demand. Raising income tax to cut a deficit is a fiscal-balance measure. Supply-side policy targets long-run capacity rather than short-run demand.

Section A, Supply-side policy · Ref A1c · ba1079

Question 6: D 4.0%

The inflation rate is the percentage change in the index: (260 − 250) ÷ 250 = 10 ÷ 250 = 0.04, or 4.0%. The figure 10.0% mistakes the absolute rise in the index for the percentage change. 2.6% reads the new index as a rate (260 ÷ 100) without measuring any change, and 6.0% does not follow from the index values. Inflation is always the proportionate change in the index relative to the earlier period.

Section A, Inflation rate calculation · Ref A1e · ba1080

Question 7: A The International Monetary Fund (IMF)

The IMF promotes international monetary cooperation and exchange-rate stability and provides financial assistance to member countries experiencing balance of payments problems. The WTO deals with the rules of trade between nations, the European Central Bank conducts monetary policy for the eurozone only, and a stock exchange is a market for securities. The IMF's distinctive remit is monetary cooperation and balance of payments support.

Section A, International institutions (IMF) · Ref A3b · ba1082

Question 8: A Expansionary monetary policy

Lowering interest rates to encourage borrowing and spending is expansionary monetary policy, operated by the central bank through the cost of money. Contractionary monetary policy would raise rates to cool the economy. Fiscal policy concerns government taxation and spending rather than interest rates, and supply-side policy targets productive capacity. A central bank acting through interest rates to boost demand defines expansionary monetary policy.

Section A, Expansionary monetary policy · Ref A1c · ba1101

Question 9: C Improve the current account by making exports cheaper, imports dearer

A weaker currency lowers the foreign-currency price of exports (boosting them) and raises the domestic price of imports (curbing them), tending to improve the current account, subject to the responsiveness of trade volumes. Depreciation makes exports cheaper, not dearer, abroad, and makes imports more expensive, not cheaper. The effect on the trade balance is real, not neutral, which is why exchange-rate movements matter for trade.

Section A, Currency depreciation · Ref A2a · ba1103

Question 10: D An initial spending change produces a larger change in national income

The multiplier captures the idea that an initial injection of spending circulates through the economy as one person's spending becomes another's income, producing a final change in national income larger than the original injection. The other statements describe taxation, a monetarist view of prices, and borrowing costs respectively. The key feature of the multiplier is the amplified, knock-on effect of an initial change in spending.

Section A, The multiplier effect · Ref A1d · ba1104

Question 11: A Is adjusted to remove the effect of inflation

Real GDP is measured at constant prices, stripping out the effect of inflation so that changes reflect genuine growth in output rather than rising prices. Nominal GDP is measured at current prices and so mixes volume and price changes. Real GDP does not include imports, is not necessarily larger than nominal GDP, and covers all output, not just government spending. Adjusting for inflation is the essential distinction.

Section A, Real vs nominal GDP · Ref A1e · ba1105

Question 12: B Greater vulnerability to economic shocks from other countries

Globalisation increases interdependence between economies, so a downturn or financial crisis in one country can quickly spread to others — a significant disadvantage. Access to larger export markets, a wider range of imports and inflows of foreign investment are generally seen as benefits of globalisation. The same interconnection that brings opportunities also transmits shocks, which is the downside highlighted here.

Section A, Disadvantages of globalisation · Ref A3a · ba1106

Question 13: C Raise the domestic price of goods, protecting domestic producers

A tariff is a tax on imports that raises their price in the domestic market, making home-produced goods relatively more attractive and protecting domestic producers from foreign competition. It tends to reduce, not increase, import volumes, and it raises rather than lowers the domestic price. Far from leaving domestic producers unaffected, protection of those producers is the usual purpose of a tariff.

Section A, Effect of a tariff · Ref A2b · ba1107

Question 14: A Two consecutive quarters of negative economic growth

A recession is conventionally defined as two consecutive quarters of falling real GDP — negative economic growth. A single month of rising unemployment is too short and narrow to qualify, a fall in the inflation rate (disinflation) is a price phenomenon rather than a measure of output, and rising share prices are not part of the definition. The standard test is sustained negative growth over two quarters.

Section A, Definition of recession · Ref A1b · ba1126

Question 15: A Investment by firms

Injections add to the circular flow and consist of investment, government spending and exports; investment by firms is therefore an injection. Savings, taxation and spending on imports are withdrawals (leakages) that remove money from the domestic flow. The level of national income depends on the balance between injections and withdrawals, so classifying each correctly is important.

Section A, Injections into circular flow · Ref A1a · ba1130

Question 16: A Shareholders who own the company and directors who run it may have different objectives

The principal-agent problem arises from the separation of ownership and control: shareholders (principals) delegate decision-making to directors and managers (agents), whose personal objectives may diverge from maximising shareholder wealth. The other options describe taxation, price regulation and employment law respectively — real issues for businesses, but unrelated to the agency relationship between owners and managers.

Section B, Principal-agent problem · Ref B1c · ba1008

Question 17: A 0.5

Price elasticity of demand = percentage change in quantity demanded ÷ percentage change in price. The quantity change is (900 − 1,000) ÷ 1,000 = −10%. The price change is (£12 − £10) ÷ £10 = +20%. PED = −10% ÷ 20% = −0.5, or 0.5 ignoring sign. As this is below 1, demand is price-inelastic. The 2.0 answer inverts the ratio. The 0.1 answer misuses the figures. The 1.0 answer would indicate unitary elasticity.

Section B, Price elasticity of demand · Ref B2b · ba1010

Question 18: C A negative externality

A negative externality is a cost imposed on third parties not involved in a transaction, such as pollution affecting a community. It is a source of market failure because the producer does not bear the full social cost. A positive externality confers an uncompensated benefit on others. An internal economy of scale concerns a firm's own cost savings, and a maximum price control is a government intervention — neither describes the situation.

Section B, Externalities · Ref B3b · ba1014

Question 19: C The market value of the shareholders' investment in the company

Shareholder wealth is reflected in the market value of their investment — the share price multiplied by the number of shares held, plus dividends received. The number of shares issued says nothing about their value. Directors' salaries are a cost, not a measure of owners' wealth. Sales revenue ignores costs and so does not measure the return to shareholders. Maximising this market value is the conventional financial objective.

Section B, Shareholder wealth · Ref B1b · ba1033

Question 20: B A rightward shift of the entire demand curve

Advertising is a non-price determinant of demand. Because it raises the quantity demanded at every price, the whole demand curve shifts to the right. Movements along a demand curve are caused only by a change in the product's own price, not by advertising. A shift in the supply curve concerns producers, not consumer demand. Distinguishing shifts of a curve from movements along it is a core skill.

Section B, Demand curve shifts · Ref B2a · ba1034

Question 21: A 0.75

Price elasticity of supply = percentage change in quantity supplied ÷ percentage change in price. Quantity change = (575 − 500) ÷ 500 = +15%. Price change = (£24 − £20) ÷ £20 = +20%. PES = 15% ÷ 20% = 0.75. As this is below 1, supply is price-inelastic over this range. The 1.33 answer inverts the ratio. Options C and D (0.15 and 0.20) are the percentage changes in quantity and price on their own, not their ratio.

Section B, Price elasticity of supply · Ref B2b · ba1035

Question 22: C The development of a specialised local labour force serving a whole industry

External economies of scale arise from the growth of the industry or its environment and benefit all firms within it — such as a pool of skilled labour developing in a region. The other three are internal economies, arising from the growth of the individual firm: spreading fixed costs, financial economies from size, and managerial specialisation all stem from the firm's own expansion, not the industry's.

Section B, External economies of scale · Ref B3a · ba1037

Question 23: C Granting directors share options linked to company performance

Performance-linked share options give directors a personal financial stake in the share price, aligning their incentives with shareholders' goal of increasing the value of the company — a common response to the principal-agent problem. A fixed salary regardless of performance does nothing to align interests, and removing performance targets weakens alignment further. Corporation tax payments are unrelated to the agency relationship between owners and managers.

Section B, Aligning agency interests · Ref B1c · ba1062

Question 24: C An oligopoly

An oligopoly is a market dominated by a few large firms whose decisions are interdependent — each must consider how rivals will react to its pricing and output choices, which often leads to price stability or non-price competition. Perfect competition has many price-taking firms, a monopoly has one dominant seller, and monopolistic competition has many firms with differentiated products. Interdependence among a few firms is the hallmark of oligopoly.

Section B, Oligopoly · Ref B3b · ba1085

Question 25: D A negative income elasticity of demand

A good whose demand falls as income rises is an inferior good, and it has a negative income elasticity of demand: the rise in income and the fall in quantity move in opposite directions. Normal goods have positive income elasticity, and a luxury has a high positive value. Zero elasticity would mean demand is unaffected by income. The negative sign is what identifies an inferior good.

Section B, Income elasticity (inferior goods) · Ref B2b · ba1086

Question 26: C Marginal cost equals marginal revenue

Profit is maximised where marginal cost equals marginal revenue: up to that point each extra unit adds more to revenue than to cost, and beyond it each extra unit adds more to cost than to revenue. Maximum total revenue ignores costs, minimum average cost is about efficiency rather than profit, and the relationship between fixed and variable costs does not determine the profit-maximising output. MC = MR is the decision rule.

Section B, Profit maximisation · Ref B2d · ba1089

Question 27: D Many firms selling differentiated products, with low entry barriers

Monopolistic competition features many firms selling similar but differentiated products (through branding, quality or design), with relatively low barriers to entry — think of restaurants or hairdressers. A single seller is a monopoly, a few interdependent firms an oligopoly, and identical products sold by price takers describe perfect competition. Product differentiation among many easily-entering firms is what defines monopolistic competition.

Section B, Monopolistic competition · Ref B3b · ba1108

Question 28: A Its employees

Internal stakeholders are those within the organisation, such as employees and managers, who take part directly in its operations. Customers and suppliers are connected stakeholders (as are shareholders and lenders): they have a contractual or financial link with the company but are not part of it. The government is an external stakeholder. Distinguishing internal, connected and external stakeholders helps in analysing their differing interests and influence.

Section B, Internal stakeholders · Ref B1c · ba1109

Question 29: B A rise in consumer incomes

For a normal good, demand rises as incomes rise, shifting the whole demand curve to the right (more is demanded at every price). A fall in incomes would shift it left. Changes in the good's own price cause movements along the demand curve, not shifts of it, so the options about the good's own price describe a different effect. Only a non-price determinant such as income shifts the curve.

Section B, Demand curve shifts · Ref B2a · ba1110

Question 30: D 0.5

Cross elasticity of demand = percentage change in quantity demanded of B ÷ percentage change in the price of A = 10% ÷ 20% = +0.5. The positive sign shows the goods are substitutes: as A becomes dearer, buyers switch to B. The value 2.0 inverts the ratio, and the negative values would wrongly imply complements. A positive cross elasticity indicates substitutes; a negative one indicates complements.

Section B, Cross elasticity of demand · Ref B2c · ba1112

Question 31: C To provide a public service efficiently and effectively

A public sector body generally aims to deliver a service to the public as efficiently and effectively as possible — value for money — rather than to make a profit. It has no shareholders seeking profit or dividends, and competing for market share is a commercial goal not typically relevant to a state service. The absence of a profit motive, replaced by service and value-for-money objectives, characterises the public sector.

Section B, Public sector objectives · Ref B1a · ba1132

Question 32: D Perfectly inelastic

A vertical demand curve means the quantity demanded is the same whatever the price — quantity does not respond to price at all — which is perfectly inelastic demand (elasticity of zero). Perfectly elastic demand is a horizontal line. Unit elasticity and relative elasticity describe responsive demand with downward-sloping curves. The vertical line, showing no quantity response to price, is the perfectly inelastic case.

Section B, Perfectly inelastic demand · Ref B2b · ba1133

Question 33: C 1.25

PED = percentage change in quantity ÷ percentage change in price. Quantity change = (50 − 40) ÷ 40 = +25%. Price change = (£20 − £25) ÷ £25 = −20%. PED = 25% ÷ 20% = 1.25. As this exceeds 1, demand is price-elastic over this range. The value 0.80 inverts the ratio. The quantity response being larger than the price change in proportionate terms is what makes demand elastic here. 0.25 is the 25% change in quantity on its own, without dividing by the change in price.

Section B, Price elasticity of demand calculation · Ref B2b · ba1136

Question 34: D Identifying patterns in customer behaviour to inform marketing

Big data analytics is used to identify patterns and relationships within large, varied and fast-moving datasets — for example, analysing customer behaviour to target marketing and understand value. The other options are routine, structured accounting tasks handled by conventional systems. The distinctive value of big data lies in extracting insight from volume, variety and velocity of data, not in standard transaction recording or compliance reporting.

Section C, Big data and analytics · Ref C2a · ba1016

Question 35: A The frequency distribution of a continuous variable

A histogram shows the frequency distribution of a continuous variable, with the area of each bar representing frequency across class intervals. Displaying parts of a whole is the job of a pie chart. Tracking a single value over time suits a line graph. Showing geographic location calls for a map. Choosing the right chart for the data type is a basic but commonly tested skill.

Section C, Charts and diagrams · Ref C1b · ba1040

Question 36: B 450

In the additive model, forecast actual value = trend + seasonal variation = 480 + (−30) = 450. The negative seasonal factor indicates the quarter typically falls below the trend, so it is subtracted. The 510 answer adds 30 instead of subtracting it. The 480 answer ignores the seasonal adjustment entirely. Getting the sign of the seasonal factor right is essential when applying the additive model. 460 does not arise from any consistent treatment of the trend and seasonal figures.

Section C, Seasonal variation (additive) · Ref C2c · ba1042

Question 37: D They assume that past patterns and relationships will continue into the future

Time series forecasts extrapolate historical patterns, so they rest on the assumption that the trend and seasonal relationships seen in the past will persist. If conditions change — new competition, economic shocks, shifts in consumer behaviour — the forecast can quickly become unreliable, and accuracy generally falls the further ahead one forecasts. The other options misstate how forecasting works; forecasts are numerical and do not require specialist software.

Section C, Forecasting limitations · Ref C2e · ba1043

Question 38: B It is relevant to the decision being made

Good information is, among other things, relevant to the decision in hand — it helps the user make or evaluate a choice. Other recognised qualities include being accurate, complete, timely, understandable and cost-effective. Deliberately incomplete information and information delivered too late to influence the decision both fail these tests, and excessive detail beyond the user's needs reduces, rather than improves, usefulness.

Section C, Characteristics of good information · Ref C1a · ba1067

Question 39: D The variable cost per unit

In a linear cost equation y = a + bx, the slope coefficient b is the variable cost per unit — here, total cost rises by £8 for each additional unit produced. The intercept a (£500) is the fixed cost, incurred even at zero output, so both the 'fixed cost' and the 'total cost when no units are produced' answers describe the £500 figure rather than the 8. The equation describes cost behaviour, not selling price.

Section C, Regression interpretation · Ref C2d · ba1068

Question 40: D The value that occurs most frequently

The mode is the value that appears most often in a data set, and a set can have more than one mode or none at all. The middle ordered value is the median, the sum divided by the count is the mean, and the gap between highest and lowest is the range. The mode is particularly useful for categorical data, where an average or median may not be meaningful.

Section C, Mode · Ref C2d · ba1093

Question 41: A 22

The range is the difference between the highest and lowest values: 30 − 8 = 22. It is the simplest measure of dispersion. The values 30 and 8 are the highest and lowest themselves, not the range, and 17.4 is the arithmetic mean of the set. Although easy to calculate, the range uses only the two extreme values and so can be distorted by a single outlier.

Section C, Range · Ref C2d · ba1094

Question 42: C 0.60

Probability = favourable outcomes ÷ total outcomes = 12 red ÷ 20 total = 0.60. The value 0.40 is the probability of selecting a blue bead (8 ÷ 20), and 1.50 (12 ÷ 8) wrongly divides reds by blues rather than by the total. A probability must lie between 0 and 1, which immediately rules out 1.50. The total number of possible outcomes is the correct denominator. 0.12 treats the count of 12 red beads as if it were a probability.

Section C, Probability · Ref C2d · ba1115

Question 43: C The number of observations falling below a given value

A cumulative frequency distribution adds up frequencies in order, so it directly shows how many observations fall below (or above) a given value and is the basis for finding medians and quartiles. The most common value is the mode, the mean requires a separate calculation, and correlation concerns the relationship between two variables. Accumulating frequencies answers 'how many up to this point' questions.

Section C, Cumulative frequency · Ref C1b · ba1119

Question 44: C 20%

The coefficient of variation = standard deviation ÷ mean = 10 ÷ 50 = 0.20, or 20%. It expresses variability relative to the mean, allowing comparison of dispersion between data sets of different sizes. The figure 500% inverts the ratio (50 ÷ 10), and 5% takes the inverted ratio (50 ÷ 10 = 5) and reads it as a percentage. Dividing the standard deviation by the mean, then converting to a percentage, gives the relative measure of spread. 40% is double the correct ratio and does not follow from the figures.

Section C, Coefficient of variation · Ref C2d · ba1141

Question 45: A Qualitative data

Qualitative data describe a quality or category rather than a numerical measurement, and satisfaction ratings expressed in words are qualitative (specifically, ordinal categories). Continuous and discrete quantitative data are numerical — measured on a scale or counted in whole numbers respectively. Time series data are values recorded over successive time periods. Data expressed as descriptive categories rather than numbers are qualitative.

Section C, Qualitative data · Ref C1a · ba1142

Question 46: C £8,264

Present value discounts a future sum back to today: PV = £10,000 ÷ $(1.10)^2$ = £10,000 ÷ 1.21 = £8,264 (to the nearest £). The £8,000 answer deducts a flat £1,000 per year, treating discounting like simple interest. The £9,091 answer discounts for only one year (£10,000 ÷ 1.10). The £7,513 answer discounts for three years (£10,000 ÷ 1.10^3). The exponent must match the number of years until the cash flow is received.

Section D, Present value · Ref D2b · ba1023

Question 47: B Its goods become more expensive for US customers, reducing export competitiveness

When sterling strengthens, each pound buys more dollars, so a UK exporter's goods priced in sterling translate into a higher dollar price for US buyers. This makes the goods less competitive and tends to reduce export volumes. Goods becoming cheaper for US customers would be the effect of a weaker pound, not a stronger one. There is certainly an effect on the price US customers pay, because exchange rates feed directly into the foreign-currency price; and a stronger pound makes US imports cheaper for the UK firm, not more expensive.

Section D, Exchange rate impact · Ref D3b · ba1025

Question 48: B Cash held in a current account

Liquidity refers to how quickly and cheaply an asset can be converted into cash without loss of value. Cash in a current account is already money and so is the most liquid. A ten-year bond and shares in an unlisted company can be harder to sell at short notice, and commercial property is notably illiquid — it can take months to sell. Managing liquidity means balancing the return on less liquid assets against the need for ready cash.

Section D, Liquidity of financial assets · Ref D1a · ba1045

Question 49: A £410

Discount each inflow and subtract the initial outlay. Year 1: £6,000 × 0.909 = £5,454. Year 2: £6,000 × 0.826 = £4,956. Present value of inflows = £10,410. NPV = £10,410 − £10,000 = £410. The positive NPV suggests the project is worthwhile. The £2,000 answer is the undiscounted net cash flow, ignoring the time value of money. The £10,410 answer omits the initial investment. £210 does not follow from the stated discount factors.

Section D, Net present value · Ref D2b · ba1070

Question 50: D £4,974

An annuity factor discounts a stream of equal annual cash flows in a single step: present value = £2,000 × 2.487 = £4,974. The £6,000 answer is the undiscounted total of the three receipts, ignoring the time value of money. The £6,620 answer compounds the receipts forward to their value at the end of year 3 rather than discounting them. The annuity factor already sums the individual discount factors for years 1 to 3, so it is applied once to the annual amount. £1,653 discounts a single £2,000 receipt for two years (£2,000 ÷ 1.10^2) instead of valuing the three-year stream.

Section D, Present value of an annuity · Ref D2b · ba1071

Question 51: C £4,600

Simple interest is charged only on the original principal: interest = £4,000 × 5% × 3 = £600, so the total is £4,000 + £600 = £4,600. The value £4,630 would result from compounding, which is not used here. £4,200 applies only one year's interest. Simple interest gives a constant annual amount, unlike compound interest, which would earn interest on accumulated interest. £12,600 multiplies the principal by the three years before adding the interest.

Section D, Simple interest · Ref D2a · ba1096

Question 52: B $2.20

Purchasing power parity adjusts the rate by the ratio of the two inflation rates: expected rate = $2.00 × (1.10 ÷ 1.00) = $2.20. Higher US inflation means more dollars are needed per pound, so the dollar weakens to $2.20. The figure $1.82 inverts the ratio, which would imply the dollar strengthening despite higher US inflation. The currency with the higher inflation rate is expected to depreciate. $1.80 deducts 10% from the rate, moving it in the wrong direction, and $2.10 applies only half of the 10% inflation differential.

Section D, Purchasing power parity calculation · Ref D3b · ba1098

Question 53: A -£1,045

Present value of the inflows = £5,000 × 3.791 = £18,955. Net present value = £18,955 − £20,000 = −£1,045. The negative NPV suggests the project should be rejected, as it does not recover its cost in present-value terms. The figure £18,955 omits the initial investment, and £1,045 has the wrong sign. The annuity factor discounts the whole stream of equal cash flows in one step.

Section D, Net present value · Ref D2b · ba1120

Question 54: C A forward discount

Interest rate parity holds that the currency with the higher interest rate trades at a forward discount, so that the interest-rate advantage is offset by an expected fall in the currency's value — otherwise riskless profit would be possible. A forward premium attaches to the lower-interest currency. The forward rate is not unchanged, and parity describes a market relationship rather than an official peg. Higher interest rate, forward discount.

Section D, Interest rate parity · Ref D3b · ba1122

Question 55: B 4 years

With constant annual inflows, the payback period is the initial investment divided by the annual inflow: £40,000 ÷ £10,000 = 4 years. Payback measures how long it takes to recover the original outlay in cash terms; it ignores the time value of money and any cash flows after the payback point. The other figures do not match the £40,000 outlay recovered at £10,000 a year.

Section D, Payback period · Ref D2b · ba1124

Question 56: D £3,960

Present value = future cash flow × discount factor = £5,000 × 0.792 = £3,960. The discount factor of less than 1 reduces the future amount to its value today. The figure £6,313 divides by the factor instead of multiplying, which compounds rather than discounts, and £5,000 ignores discounting. Multiplying the future sum by the appropriate discount factor converts it to present value. £20,000 multiplies the receipt by the number of years rather than by the discount factor.

Section D, Present value · Ref D2b · ba1144

Question 57: B 12.6%

The effective annual rate compounds the quarterly rate over four quarters: $(1.03)^4 − 1 = 1.1255 − 1 = 0.1255$, or 12.6%. The figure 12.0% simply multiplies 3% by four, ignoring the compounding of interest on interest within the year. Because interest is earned each quarter on a growing balance, the true annual rate exceeds the simple 12%. Compounding the periodic rate gives the effective annual figure. 6.0% applies only two quarters of simple interest (2 × 3%) instead of compounding over four.

Section D, Effective annual rate · Ref D2a · ba1145

Question 58: A An exchange rate agreed now for a future currency transaction

A forward rate is agreed today for a currency exchange that will be settled at a specified future date, allowing businesses to fix the rate in advance and hedge exchange rate risk. The rate for immediate delivery is the spot rate, a central bank's official rate applies to a fixed or managed regime, and a past average is a historical statistic. Locking in a future rate now is the essence of a forward.

Section D, Forward exchange rate · Ref D1c · ba1146

Question 59: D Be accepted, because it is expected to add value

A positive net present value means the discounted value of the project's future cash inflows exceeds its initial cost, so it is expected to increase the wealth of the business and should, in principle, be accepted. NPV is based directly on cash flows, not profits, so it does not ignore them; and a value-adding project should not be rejected or deferred without reason. A positive NPV is the basic accept signal in investment appraisal.

Section D, Positive NPV decision · Ref D2b · ba1148

Question 60: D £2,662

Compound interest: £2,000 × $(1.10)^3$ = £2,000 × 1.331 = £2,662. The figure £2,600 applies simple interest (£2,000 + 3 × £200). £2,420 compounds for only two years, and £2,200 for one year. The amount by which £2,662 exceeds the simple-interest £2,600 is the interest earned on previously accumulated interest, which is what compounding captures.

Section D, Future value (compounding) · Ref D2a · ba1150