



Business Economics

01 June 2016

Examination Paper

Answer any FIVE (5) questions.

Clearly cross out surplus answers.

Failure to do this will result in only the first FIVE (5) answers being marked.

Time: 3 hours

The maximum mark for this paper is 100.

Any reference material brought into the examination room must be handed to the invigilator before the start of the examination.

Candidates are allowed to use a scientific calculator during this examination.

Answer any FIVE (5) questions

Marks

Question 1

- | | |
|---|----------|
| a) Explain the TWO (2) assumptions that profit maximisation is based upon. | 2 |
| i) At what level of output is profit maximised? | 2 |
| ii) Explain the organisational form/ownership type that undermines the assumption of profit maximisation and why this is a problem. | 5 |
| b) Theories about firms' objectives can be grouped into theories about goals that are maximised and goals that are not maximised. | |
| i) Outline THREE (3) examples of goals that are not maximised. | 3 |
| ii) Explain what is meant by <i>constrained sales revenue maximisation</i> . | 3 |
| c) Outline a goal maximisation strategy where the aims of shareholders and managers are both served. | 3 |
| i) Highlight a practical problem with this strategy. | 2 |

Total 20 Marks

Question 2

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|--|----------|
| a) Outline TWO (2) methods that have been suggested to determine if owner-control is present in a PLC. | 4 |
| i) Explain the alternative control where owner-control is not present. | 1 |
| ii) Why would pension funds be interested in the effectiveness of the management of organisations? | 1 |
| iii) Outline a consequence of the high levels of institutional ownership of a firm. | 1 |
| b) Explain whether short or long term profit maximisation is most important to a firm and support your view with evidence. | 2 |

- c) Describe the correlation in the table below between executive pay and the performance of their companies. Comment whether research supports or contradicts this.

Rank	Sales Revenue Maximizers	Highest paid CEOs
1	ABC Motors	Top Bank Corporation
2	City Industrials	Internet Networks
3	Speedy Motors	Home Furnishings
4	Soft Chocs	Delphi Oracle
5	Cola Co	Worldwide Financials
6	Trendy Music	Cool Cosmetics
7	Worldwide Food Group	Global Auctions
8	Wellbeing Healthcare	First Educations
9	United Football Club	Global Drinks Inc
10	First Pharmaceuticals	Italian Goldmines

- d) Why would firms run by managers be likely to maximise sales revenue rather than profit? **2**
- e) Describe FIVE (5) findings identified by Conyon and Gregg (1994) relating to determinants of executive remuneration. **5**

Total 20 Marks

Question 3

- a) Explain the use of *barometric forecasting techniques* and provide TWO (2) examples of *leading indicators*. **8**
- b) Identify and briefly explain FOUR (4) separate but related concepts of a market. **4**
- c) Explain the purpose of market surveys and highlight FOUR (4) important aspects of them. **6**
- d) Highlight TWO (2) problems of using salesforce opinions. **2**

Total 20 Marks**Question 4**

- a) Define what is meant by the term *multinational corporation* and give TWO (2) methods by which they can come about. **4**
- i) Outline TWO (2) ways of ranking *multi-national corporations*. **2**
- ii) Outline a general motive for a company to become a *multi-national corporation*. **2**
- iii) Distinguish between TWO (2) types of orientation for *multi-national corporations*. **4**
- b) Outline THREE (3) enabling technologies for *multinational corporations*, give an example for each. **6**
- c) Outline ONE (1) advantage and ONE (1) disadvantage of exporting rather than producing overseas. **2**

Total 20 Marks

Question 5

- a) Explain the following demand function: $Q_d = f(P_o, P_s, Y_d, T, A, I)$ 7
- i) Explain the concept of *diseconomies of scale*. 2
- ii) Draw and label a *long run cost curve*, which shows *economies of scale* occurring up to a certain level of output, after which their effect is outweighed by *diseconomies of scale*. 3
- iii) Identify what has been described as the simplest approach to estimating demand. 2
- b) Outline SIX (6) factors that determine the intensity of rivalry within an industry. 6

Total 20 Marks

Question 6

- a) Explain the term *externality*, and distinguish between positive and negative *externalities*, using examples. 6
- b) Using the concept of positive *externalities* make the case for public ownership. 4
- c) Outline a reason for opposing private ownership of the means of production, distribution and exchange. 2
- i) Outline two indirect strategies for *privatising* the public sector. 4
- ii) Describe two *supply side* benefits of *privatisation*. 4

Total 20 Marks

End of paper