

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) PEST is a method of analysing a firm or industrial sector by looking at 1) \_\_\_\_\_
  - A) primary, ecological, social and technological factors.
  - B) strengths and weaknesses.
  - C) political, economic, social and technological factors.
  - D) profit, ecological, social and technological factors.
  - E) B and D
  
- 2) PEST analysis can be extended to PESTEL analysis with the addition of 2) \_\_\_\_\_
  - A) environmental and long-term factors.
  - B) environmental and legal factors.
  - C) external and legal factors.
  - D) economic and legal factors.
  
- 3) Which of the following would be classified as part of the macroeconomic environment? 3) \_\_\_\_\_
  - A) An increase in interest rates
  - B) Falling costs for a textile manufacturer
  - C) An increase in prices in the manufacturing industry
  - D) The entrance of new firms into the tertiary sector
  
- 4) Changes in attitudes to equality would be classified as 4) \_\_\_\_\_
  - A) a social factor.
  - B) an economic factor.
  - C) a political factor.
  - D) a technological factor.
  
- 5) Studying how the management of Toyota decides how many cars to produce and the price to charge for various models would be considered as 5) \_\_\_\_\_
  - A) descriptive economics.
  - B) empirical economics.
  - C) macroeconomics.
  - D) microeconomics.
  
- 6) A study of how increases in the corporation tax (a tax on business profits) rate will affect the national unemployment rate is an example of 6) \_\_\_\_\_
  - A) descriptive economics.
  - B) macroeconomics.
  - C) microeconomics.
  - D) normative economics.
  
- 7) Primary production refers to 7) \_\_\_\_\_
  - A) a firm's main product.
  - B) the output of the entire manufacturing sector.
  - C) the production and extraction of natural resources, plus agriculture.
  - D) the main product produced by a country.
  
- 8) Tertiary production refers to 8) \_\_\_\_\_
  - A) the output of the entire service sector.
  - B) the production and extraction of natural resources.
  - C) the main product produced by a country.
  - D) a firm's main product.

- 9) Over the past two decades the relative size of the UK's secondary sector has \_\_\_\_\_ and the tertiary sector has \_\_\_\_\_. 9) \_\_\_\_\_  
 A) risen; fallen                      B) fallen; risen                      C) risen; risen                      D) fallen; fallen
- 10) The extent to which an industry is dominated by large business enterprises is usually examined by a measure of 10) \_\_\_\_\_  
 A) brand awareness.  
 B) advertising expenditure as a proportion of sales revenue.  
 C) SME employment.  
 D) industrial concentration.
- 11) The output from McDonalds would be classified as 11) \_\_\_\_\_  
 A) tertiary production.                      B) quarternary production.  
 C) primary production.                      D) secondary production.
- 12) The decline in the share of the secondary sector in GDP is known as 12) \_\_\_\_\_  
 A) grandfathering.                      B) de-industrialisation.  
 C) industrialisation.                      D) nationalisation.
- 13) Which of the following statements concerning the Standard Industrial Classification (SIC) is true? 13) \_\_\_\_\_  
 A) The SIC has 272 sections, 88 divisions, 200 groups, 50 classes and 191 subclasses.  
 B) The SIC has 12 sections, 20 divisions, 200 groups, 5 classes and 91 subclasses.  
 C) The SIC has 21 sections, 88 divisions, 272 groups, 615 classes and 191 subclasses.  
 D) The SIC has 21 sections, 20 divisions, 200 groups, 500 classes and 191 subclasses.
- 14) In UK industry, large firms (i.e. those with more than 250 employees) account for about \_\_\_\_\_% of employment and SMEs (i.e. those with fewer than 250 employees) account for about \_\_\_\_\_% of workers. 14) \_\_\_\_\_  
 A) 90; 10                      B) 75; 25                      C) 25; 75                      D) 50; 50
- 15) Which of the following would explain why small and medium-sized firms account for about 98% of businesses in the gas, electricity and water supply sectors but they only account for about 15% of employment and 20% of sales? 15) \_\_\_\_\_  
 A) A shortage of capital-intensive production  
 B) A shortage of labour  
 C) The need to access natural resources  
 D) A need for large-scale capital-intensive production
- 16) Business performance could be examined by looking at 16) \_\_\_\_\_  
 A) growth in market share.                      B) change in share price.  
 C) current profitability.                      D) all of the above
- 17) The level of unemployment is studied by business economists and is an 17) \_\_\_\_\_  
 A) external influence on the firm.  
 B) external effect of business decision-making.  
 C) internal decision of the firm.  
 D) A and B

- 18) The development of a new production technology is an \_\_\_\_\_ 18) \_\_\_\_\_  
 A) internal decision of the firm.  
 B) external influence on the firm.  
 C) external effect of business decision-making.  
 D) A and B
- 19) In a free-market economy \_\_\_\_\_ what gets produced, how it is produced and who gets it. 19) \_\_\_\_\_  
 A) firms but not consumers determine  
 B) consumers but not firms determine  
 C) the behaviour of buyers and sellers determines  
 D) the central government authority determines
- 20) The institution through which buyers and sellers interact and engage in exchange is called a \_\_\_\_\_ 20) \_\_\_\_\_  
 A) laissez-faire. B) market.  
 C) production curve. D) central authority.
- 21) Gross Domestic Product (GDP) measures \_\_\_\_\_ 21) \_\_\_\_\_  
 A) the value of output produced within a country.  
 B) the output of a country's largest industry.  
 C) the number of products produced within a country.  
 D) economic growth.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 22) An example of an external influence on the firm is its marketing decisions. 22) \_\_\_\_\_
- 23) An example of an external effect of business decision-making is the level of interest rates. 23) \_\_\_\_\_
- 24) The rate of inflation is an example of an external influence on the firm. 24) \_\_\_\_\_
- 25) PEST analysis looks at how political, economic, social and technological factors shape the business environment. 25) \_\_\_\_\_
- 26) Mining is an example of primary production. 26) \_\_\_\_\_
- 27) Tertiary production involves the service sector. 27) \_\_\_\_\_
- 28) The decline in the contribution of the manufacturing industry to national output is called de-industrialisation. 28) \_\_\_\_\_
- 29) The sector of the UK economy that has not grown over the last 20 years is the tertiary sector. 29) \_\_\_\_\_
- 30) The definition of an industry following the Standard Industrial Classification (SIC) is based on the qualities that consumers attribute to products. 30) \_\_\_\_\_
- 31) Business performance cannot be measured by profitability. 31) \_\_\_\_\_
- 32) The 'structure-conduct-performance' paradigm states that the main influence on a firm's performance is organisational structure within the firm. 32) \_\_\_\_\_

- 33) Businesses will always operate in the same way irrespective of the competitiveness of the market they are in. 33) \_\_\_\_\_
- 34) The better informed a business is about its markets, its costs of production, alternative techniques and alternative products it could make, the better it will be able to fulfil its goals. 34) \_\_\_\_\_
- 35) Business performance is entirely shaped by external factors. 35) \_\_\_\_\_

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 36) There are three stages in studying decision-making. Explain what they are.
- 37) What is PEST analysis?
- 38) Microeconomics is the study of what?
- 39) Macroeconomics is the study of what?
- 40) Industries are often grouped into a small number of large sectors. What are these sectors and what are their main products?
- 41) 'Business economics is a science, not an art'. Discuss.
- 42) Given that models are abstractions from reality and economists seek to explain reality, why then do economists use models?
- 43) What is the purpose of the Standard Industrial Classification (SIC)?
- 44) What revisions have been made to the SIC?
- 45) According to the 'structure-conduct-performance' paradigm, what determines business performance?
- 46) If a firm is operating in a highly competitive market, how will it tend to behave?
- 47) How may the objectives of a firm's owners and managers differ?

## Answer Key

Testname: UNTITLED1

- 1) C
- 2) B
- 3) A
- 4) A
- 5) D
- 6) B
- 7) C
- 8) A
- 9) B
- 10) D
- 11) A
- 12) B
- 13) C
- 14) D
- 15) B
- 16) D
- 17) D
- 18) A
- 19) C
- 20) B
- 21) A
- 22) FALSE
- 23) FALSE
- 24) TRUE
- 25) TRUE
- 26) TRUE
- 27) TRUE
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) FALSE
- 32) FALSE
- 33) FALSE
- 34) TRUE
- 35) FALSE
- 36) 1) External influences on the firm include raw material prices, the state of the economy and the level of interest rates. These are largely outside the firm's direct control.  
2) Internal decisions, such as price, output, production technology, marketing and investment. This is the area where the business economist can play a major role.  
3) External effects of business decisions, such as the effect on rival firms, the customers and the wider public.
- 37) This is a way of looking at the factors which impinge on a firm and is usually undertaken when a firm is reviewing its business strategy. Factors are listed under the PEST headings:  
Political or legal factors include such items as government policy, legal changes and world events.  
Economic factors can broadly be divided into macroeconomic and microeconomic.  
Macroeconomic factors include inflation, interest rates and national prosperity.  
Microeconomic factors include wage rates, input costs and competition in the market.  
Social or cultural factors include social trends such as attitudes to ethnicity or gender, or campaigns on organic foods.  
Technological factors include changes in production technology (such as automation) and communications (such as the internet).

## Answer Key

Testname: UNTITLED1

- 38) It is the study of economic factors that are specific to a particular firm operating in its own particular market. This may include issues such as the level of competition in the firm's market, the changes in consumer tastes and fashion, the influence of changes in raw material prices on business pricing decisions, etc.
- 39) It is the study of economic factors that relate to national and international situations. This may include issues such as government policies to steer the economy, changes to export demand caused by fluctuations in the global economy, etc.
- 40) • Primary production: production and extraction of natural resources including agriculture, mining and sources of energy.  
• Secondary production: production of the manufacturing and construction sectors including industries such as chemicals, electrical equipment and transport vehicles.  
• Tertiary production: production of services including banking and business services, leisure, retail and wholesale trade.
- 41) Economics attempts to be scientific, building models of how consumers, firms and the economy as a whole work. These models are then tested by looking at data taken from the real world. This is an approach which all the social sciences use, and it replaces the controlled experiments that are used in the natural sciences such as physics and chemistry. However, owing to the uncertainty involved in many business decisions, it is sometimes considered an art because it may not be possible to identify a correct answer.
- 42) Economists use models because reality has to be simplified before it can be studied. The natural sciences, such as biology, also use models. A model is generally used for three purposes:  
• to understand reality (by clarifying what is happening)  
• to explain reality (without providing a full description of everything that is happening)  
• to predict what will happen (as the simplicity of the model makes cause and effect clearer).
- 43) The SIC is a formal classification of firms into industries which is used by the government in order to collect data on business and industry trends.
- 44) Changes to the SIC have been made to reflect changes in the UK's industrial structure, such as those resulting from the growth in new products and the new industries associated with them. The most recent revision was in 2007 and this brought the UK and EU systems of industry classification into greater alignment.
- 45) In this paradigm the performance of a business is strongly influenced by the market structure within which it operates. Businesses in highly competitive markets will behave differently to those in less competitive markets. A competitive market structure influences a firm's conduct (pricing strategies, advertising, innovation, etc.) which, in turn, influences its performance (profitability, etc.).
- 46) The more competitive the market structure, the more aggressive the business will have to be in order to sell its product and remain competitive within the market.
- 47) The objectives of owners and managers may differ. Owners usually have the objective of profit maximisation. The behavior of managers may conflict with this objective. For example, although managers may wish to increase profits and sales, increasing sales may require selling at a lower price which may reduce profits.