

AUSTRALIAN ECONOMICS AND BUSINESS STUDIES COMPETITION

Business Studies Competition

Question Paper
Thursday, 15 May 2014

Instructions:

1. Do not open this booklet until instructed by your teacher.
2. You have **fifty minutes** to answer all **forty questions**.
3. Pencils and erasers only. No calculators or rulers are allowed.
4. Read all instructions in the Response Sheet provided.
5. Mark your answers using **pencil only** on the Response Sheet.
6. All questions are of equal value.
7. Choose the **most correct** option to the question and colour in the corresponding oval on the Response Sheet.
8. **One mark** will be awarded for each correct response.
9. Avoid random guessing, as **one quarter** of a mark will be deducted for each incorrect answer.
10. PLEASE MAKE SURE YOU FILL IN YOUR NAME CORRECTLY ON THE RESPONSE SHEET. ANY MISTAKES YOU MAKE WILL APPEAR ON YOUR CERTIFICATE.



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Question 1

What are the dates for the Australian 2013-2014 fiscal year?

- a. January 1st, 2014 to December 31st, 2014
- b. May 1st, 2014 to April 31st, 2014
- c. June 1st 2013 to May 31st, 2014
- d. July 1st 2013 to June 30st, 2014

Question 2

Which of the following are causes of small business failure?

- I. Inexperienced management
 - II. Inability to manage costs
 - III. Insufficient capital
- a. I and II
 - b. I and III
 - c. II and III
 - d. I, II and III

Question 3

The business cycle is

- a. a cycle which details a company's expected growth, depending on how long a company has been in operation.
- b. a theory which describes the oscillating growth of an economy over time.
- c. a number of legislative procedures that a company must undertake before being registered as a business.
- d. the complete production process for a particular good, involving all steps from generating resources to marketing.

Question 4

Which best describes the difference between the Chairman and the Chief Executive Officer (CEO)?

- a. The CEO has overall responsibility for the operations of the company, whereas the Chairman is only responsible for the outward image of the company.
- b. The CEO is responsible for short term operations whereas the Chairman is responsible for long term operations.
- c. The CEO is responsible for micro-managing the day to day operations of the firm whereas the Chairman is responsible for supervising the firm's operation whilst representing the interest of shareholders.
- d. The CEO has overall responsibility for the firm, while the Chairman's role is to supervise the board to ensure effective task setting and implementation of the company's strategy.

Question 5

An autocratic leadership style entails

- a. making decisions with little employee input.
- b. leaving work for employees to divide up between themselves.
- c. encouraging employees to undertake personal research to promote development.
- d. none of the above statements.

Question 6

Which of the following factors will have the least impact on the business operations of a local hair salon?

- a. Interest rates
- b. Income taxes
- c. Exchange rates
- d. Unemployment rates

Question 7

Which of the following is in the secondary industry?

- a. Mining
- b. Car manufacturing
- c. Tourism
- d. Education

Question 8

What is the main role of the ASX?

- a. To assist businesses in raising capital through initial public offerings
- b. To facilitate the trade of Australian financial securities
- c. To maintain the stability of Australia's currency
- d. To ensure financial institutions remain financially sound

Question 9

Under the scientific theory of management,

- a. work should not be departmentalised in order to promote innovation and development.
- b. top level managers should consult the lowest level managers in order to properly understand their business operations.
- c. the chain of command should be very clear within an organisation.
- d. employees should be well-educated in order to promote research and development within the company.

Question 10

Which of the following is not a benefit of outsourcing?

- a. Access to specialists
- b. Reduced labour costs
- c. Flexibility with staffing
- d. Increased internal oversight

Question 11

Which of the following stages of the economic cycle is characterized by two consecutive quarters of negative growth?

- a. Depression
- b. Downturn
- c. Recession
- d. Boom

Question 12

The principal-agent problem concerns difficulties in motivating one party to act in the best interests of another party. Which of the following is NOT a result of this problem arising between management and shareholders in a corporation?

- a. Forsaking potential growth for short term profit
- b. Manipulation of financial figures
- c. Increasing redundancies and lowering employee wages
- d. Over-diversification into niche markets

Question 13

Which of the following is true?

- a. Quality management is used solely in the goods industry to meet legal standards.
- b. Quality management looks purely at the outputs of the production process.
- c. Quality management looks purely at the inputs of the production process.
- d. Quality management is used to moderate both high and low quality goods.

Question 14

Which of the following answers shows an internal economy of scale and a negative externality?

- a. Specialisation of business units leading to increased productivity; increased geographic concentration of firms leading to congestion.
- b. Increased concentration of firms leading to higher supply costs; anti-competition laws reducing market growth.
- c. Growing capital markets leading to cheaper investment funds; large organisational structures leading to duplication of paperwork.
- d. Ability to invest in more efficient capital equipment; high level management losing touch with the day-to-day operations of a firm.

Question 15

The debt to equity ratio for a company is calculated as the total liabilities divided by the shareholders equity. The following table shows the debt to equity ratios for Southfarmers in 2012 and 2013.

	2012	2013
Debt to Equity Ratio	19.1%	22.2%

With reference to the above statistics, what was the most likely change in the financial position of the company between the two years?

- a. Increased risk
- b. Increased solvency
- c. Decreased liquidity
- d. Decreased asset holdings

Question 16

Cyclical changes in the economy are a result of the different stages in the economic cycle. Which of these businesses would be least affected by cyclical changes?

- a. Tourism
- b. Luxury yacht sales
- c. Funeral services
- d. Investment banking

Question 17

Lily is employed by a company that does not provide her with sick leave or annual leave. She also works irregular hours. What type of employment contract does Lily have?

- a. Permanent
- b. Permanent part-time
- c. Casual
- d. Part-time

Question 18

Companies can raise capital either by issuing shares (equity financing) or through borrowing (debt financing). What is generally considered to be an advantage of equity financing over debt financing?

- a. Equity financing for large companies can be processed more quickly.
- b. Equity financing can be more easily sourced.
- c. Equity financing does not involve periodic financial obligations.
- d. Equity investors require some ownership of the company.

Question 19

The projected cash flows for a small café over the last quarter of 2014 are shown below. The café expects to have \$5,000 in cash at the beginning of October. All outflows occur at the beginning of the month in the form of rent and inventory.

	October	November	December
Inflows	\$8,000	\$12,000	\$9,000
Outflows	\$4,000	\$10,000	\$10,000

In which month will the café face a liquidity problem?

- a. October
- b. November
- c. December
- d. The café will not face any liquidity issues.

Question 20

Which of the following is an example of capital expenditure for a small café business?

- a. Purchasing bonds with excess cash.
- b. Employing an extra barista.
- c. Buying coffee bean futures.
- d. Purchasing a second coffee machine.

Question 21

Which market is an individual participating in if he decides to purchase shares from another individual in an actively traded public company?

- a. Primary market
- b. Secondary market
- c. Dividend market
- d. Derivative market

Question 22

Farmer Joe is concerned by the fluctuations in his income due to volatility in wheat prices. In order to keep his income more stable he agrees with his buyers to lock in the price over the next 12 months. What type of activity is Farmer Joe engaged in?

- a. Arbitrage
- b. Hedging
- c. Revenue Enhancement
- d. Diversification

Question 23

Bell computers is releasing its second generation of business laptops. This is an example of

- a. line extension
- b. brand extension
- c. multi-branding
- d. vertical integration

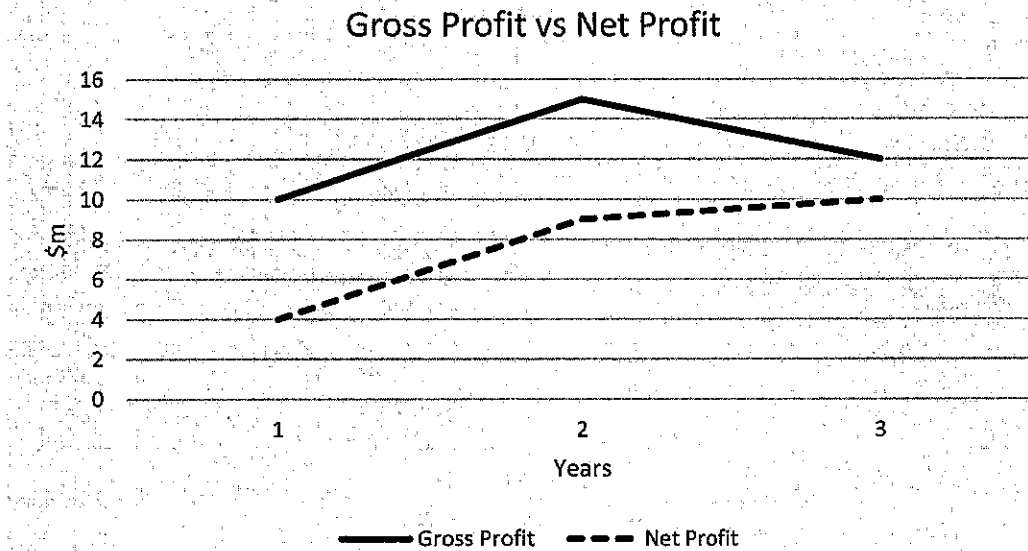
Question 24

Which of the following is the best set of measures for business growth?

- a. Sales, market share and net profit
- b. Revenue, expenses, and cost of goods
- c. Expenses, profitability and liquidity
- d. Expenses, equity and solvency

Question 25

The following graph shows the profits from Sophia's Luxuriant Realty service.



Which of the following best explains some of the trends in the above diagram?

- a. Sales decreased between years 1 and 2.
- b. Overhead expenses increased between years 1 and 2.
- c. Sales increased between years 2 and 3.
- d. Overhead expenses decreased between years 2 and 3.

Question 26

Charles is starting a new investment fund which involves an interesting business model. In order to meet a consistently-high promised rate of return, Charles will pay his older clients purely with the funds provided by newer ones. By consistently meeting his promised returns, the investment fund is able to gain a better reputation and grow even larger with new clients feeding the older clients. What type of illegal business activity is this an example of?

- a. Multi-level marketing
- b. Insider trading
- c. Market manipulation
- d. Ponzi Schemes

Question 27

Price discrimination is where suppliers sell their goods and services at different prices to different customers in order to maximise profit. Which of the following is the best example of effective price discrimination?

- a. A fruit seller charging the same price for apples and pears despite differing costs.
- b. A restaurant handing out 10% off vouchers to the first 100 customers.
- c. A cinema issuing special discount cards to students and the elderly.
- d. An electronics store offering discounts to local businesses.

Question 28

Value chain analysis looks at the value added by each activity performed. In the market for Good A, consumers know that all products are of the same quality (i.e. perfect competition). In the market for Good B, consumers are aware that the quality of products varies between producers (i.e. monopolistic competition). Which of the following business activities contributes the least value under value chain analysis?

- a. Labelling and branding of Good A.
- b. Increased marketing of Good B.
- c. Providing a cashback scheme for Good A.
- d. Providing a warranty scheme for Good B.

Use the following information to answer questions 29 and 30.

Kat Industries has invested heavily in Dogecoin mining. The table below illustrates the costs and prices for mining different amounts of Dogecoins. Assume that the variable and fixed costs are constant. Each Dogecoin is worth (and can be sold at) \$40.

Units	Total Cost
1	100
2	110
3	120
4	130
5	140
⋮	⋮

Question 29

What is the fixed cost for producing Dogecoins?

- a. \$10
- b. \$90
- c. \$100
- d. Not enough information.

Question 30

How many coins do Kat Industries have to mine to reach the break-even point?

- a. 2
- b. 3
- c. 4
- d. 5

Question 31

Folden is a major car manufacturer and in recent times its sales have expanded rapidly resulting in excess cash. The company currently sources the steel for its production from Green Scope Steel and the senior management of Folden have decided to purchase Green Scope steel outright. This is an example of

- a. horizontal integration.
- b. vertical integration.
- c. diversification.
- d. financial restructuring.

Question 32

Banana Ltd has introduced a smartphone which is specifically designed for people aged 50 and up. Which of the following best describes the company's strategy?

- a. Cost leadership
- b. Differentiation
- c. Focus
- d. Diversification

Question 33

A sole trader assumes personal liability for all costs incurred by their business. In which of the following business ventures would a sole trader structure be most commonly utilised?

- a. Developing real estate
- b. Establishing a convenience store
- c. Establishing a law firm
- d. Producing an A-grade film

Question 34

The newspaper industry in Australia is an example of

- a. a monopoly.
- b. an oligopoly.
- c. monopolistic competition.
- d. a monopsony.

Question 35

Edward's parents have agreed to lend him some money to start up his tourism business: Iceden Travel Incorporated. Edward's parents are examples of

- a. institutional investors.
- b. entrepreneurs.
- c. seed investors.
- d. venture capitalists.

Question 36

The following table outlines the different methods of inventory management used in accounting:

Types of Inventory Management	Description
LIFO (Last in First Out)	When a sale is made, the price of inventory stock bought most recently is used for the cost of goods sold on an income statement.
FIFO (First in First Out)	When a sale is made, the price of inventory stock bought first is used for the cost of goods sold on an income statement.
Weighted Average	When a sale is made, the average price of all inventory stock is used for the cost of goods sold on an income statement.

Consider the impact of positive inflation on inventory cost prices. If a company wants to increase its profitability and impress its shareholders for the current period, which method of inventory management would be used?

- a. LIFO
- b. FIFO
- c. Weighted Average
- d. There is no difference between the different methods.

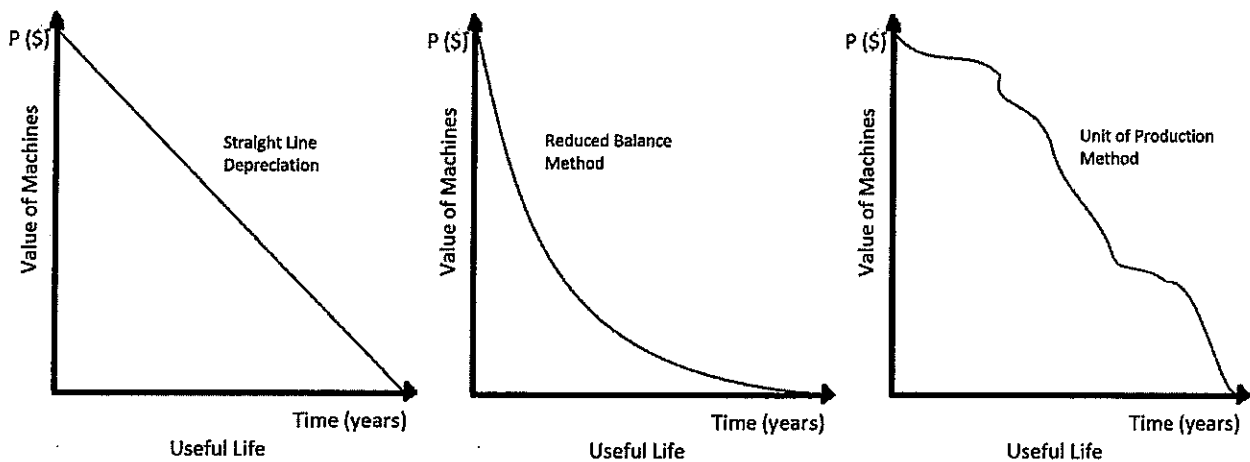
Question 37

The efficient market hypothesis claims that prices reflect all publicly available information and will instantly change to reflect new public information. If this hypothesis is correct, a key implication would be that in the absence of insider trading and with sufficient diversification,

- a. it is impossible to make any money trading in financial markets since all information is already captured in the price.
- b. it is possible to make money but everyone will make the same return.
- c. it is possible for individual investors to consistently achieve higher returns than the general market.
- d. none of the above are correct.

Question 38

Nikola Motors produces its eco-friendly automobiles using machines that can be depreciated using a number of methods. The effect of the choice of depreciation methods is depicted below as functions of time and value:



If depreciation expense is used to reduce tax and 'money today is worth more than money in the future', which of the following depreciation methods would be most favourable towards Nikola's long term profitability?

- Straight Line Method
- Reduced Balance Method
- Unit of Production Method
- All three methods are equally favourable.

Question 39

An option is a form of derivative used to hedge against risk. An option gives the holder the right, but not the obligation, to buy (call option) or sell (put option) an asset at a particular price.

An Australian exporter of iron ore is facing the risk of fluctuating exchange rates as it receives its payment in USD. Assuming that the cost of buying an option is zero, which of the following strategies is most likely to be utilized by the company?

- Buy put options for 1 USD at 0.80 AUD
- Buy put options for 1 USD at 0.85 AUD
- Buy call options for 1 USD at 0.80 AUD
- Buy call options for 1 USD at 0.85 AUD

Question 40

Which of the following is legal under Australian Law?

- Cartels
- Pyramid Schemes
- Shell Corporations
- None of the above

2014

AUSTRALIAN ECONOMICS AND BUSINESS STUDIES COMPETITION

About the Organisers

This Competition is run annually by a non-profit organisation within the Australian School of Business (ASB) at the University of New South Wales. The aim is to stimulate high school students' interest in business and economics, and lay the path for potential careers in the business world and in government.

Acknowledgements

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Competition sponsors and active supporters:



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