



CCP FOUNDATION LEVEL
PILOT PAPER
BUSINESS ENVIRONMENT

December 2021.

Time Allowed: 3 hours.

Answer any FIVE questions.

ALL questions carry equal marks.

QUESTION ONE

The Managing Director of Mich-Lima Movie Theatre Ltd. has hired you as a consultant to advise on the ticket-pricing strategy. As a basis for your recommendations, you consider historical ticket sales data which seems to suggest the following ticket sales elasticities:

Own price elasticity = -0.05
Advertising elasticity = +0.70

Required:

- (a) The managing director is contemplating a moderate increase in ticket prices in order to increase revenue. Citing relevant economic reasons, explain whether this is a good idea. (2 marks)
- (b) The managing director is also contemplating a moderate increase in the advertising budget in order to increase revenue. Is this a good idea? Explain. (3 marks)
- (c) Enumerate the internal environmental weaknesses that will have a negative effect on the growth of Mich-Lima Movie Theatre Ltd. (5 marks)
- (d) Highlight the measures to be adopted by the business to improve its internal business environment. (5 marks)
- (e) Using the PESTEL model framework, outline the impact of external business environment on Mich-Lima Movie Theatre Ltd.'s credit rating. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the impact of the economic environment on the performance of a business. (8 marks)
- (b) Differentiate between economies of scale and returns to scale. (4 marks)
- (c) The following cost function relates to XYZ limited over a given period.

$$TC = 1050 + 3Q + 12Q^2 + 15Q^3$$

Required:

- (i) Average fixed cost (AFC). (2 marks)
- (ii) Average variable cost (AVC). (2 marks)
- (iii) Average total cost (ATC). (2 marks)
- (iv) Marginal cost (MC). (2 marks)

(Total: 20 marks)

QUESTION THREE

(a) The following demand and supply functions relate to commodity x over a given period:

$$Q_d = 100 - 2P$$

$$Q_s = 40 + 4P$$

Compute the equilibrium price and quantity. (4 marks)

(b) Ceteris paribus, use diagrams to illustrate and explain the effects on the values in (a) from:

(i) Case of a fall in price of x's substitute. (5 marks)

(ii) A simultaneous increase in input prices and a rise in the consumer's income. (5 marks)

(c) Highlight six key determinants of product demand. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Distinguish between own-price elasticity of demand and cross-elasticity of demand. (4 marks)

(b) Discuss the application of demand elasticity in business management and economic policy decision-making. (8 marks)

(c) Enumerate the effects of the COVID 19 pandemic on the business environment. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Highlight six reasons why the increased inflation rate is a major cause for concern especially for small businesses. (6 marks)

(b) Suggest six remedy measures to alleviate the increased inflation rate. (6 marks)

(c) Examine four main business growth strategies. (8 marks)

(Total: 20 marks)

QUESTION SIX

(a) Highlight the distinction between "monetary policy" and "fiscal policy". (4 marks)

(b) Analyse the effect of government policies on the business environment. (8 marks)

(c) Outline the measures undertaken by the business to ensure a conducive external business environment. (8 marks)

(Total: 20 marks)

QUESTION SEVEN

(a) Define the concept of balance of payment. (2 marks)

(b) Highlight the key causes of a deficit in the balance of payment. (5 marks)

(c) With the aid of a relevant illustration, explain the theory of comparative advantage in international trade. (5 marks)

(d) Citing relevant examples, discuss the effects of currency depreciation on the international business environment. (8 marks)

(Total: 20 marks)

.....