

# CIMA Fundamentals of Business Economics (BA1) Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. Which cost represents the total of fixed costs and variable costs?**
  - A. Fixed costs**
  - B. Total costs**
  - C. Variable costs**
  - D. Average costs**
  
- 2. ROCE tells how well capital is used to generate profits. Which option best reflects this statement?**
  - A. It indicates cash flow availability**
  - B. It measures how well capital is used to generate profits**
  - C. It measures market share**
  - D. It equals total assets**
  
- 3. Which of the following is listed as a disadvantage of unrestricted international trade?**
  - A. Unemployment from unrestricted trade**
  - B. Higher wages for workers**
  - C. Increased efficiency**
  - D. Greater specialization**
  
- 4. In a credit agreement, what term describes an asset held to secure repayment of the debt?**
  - A. Collateral**
  - B. Reserve**
  - C. Deposit**
  - D. Guaranty**
  
- 5. The base rate is the rate around which all rates are set. True or False?**
  - A. True**
  - B. False**
  - C. Not defined**
  - D. Not used in practice**

- 6. During the boom stage, which of the following is observed?**
- A. Unemployment rises sharply**
  - B. Budget deficit occurs**
  - C. Inflation tends to rise and imports may increase**
  - D. Economic growth stops**
- 7. Which market trades instruments whose value derives from underlying assets?**
- A. Money Market**
  - B. Derivatives Market**
  - C. Insurance Market**
  - D. FOREX Market**
- 8. Which of the following is a factor used to determine the price elasticity of demand?**
- A. Time since last price change**
  - B. Brand loyalty**
  - C. Availability of substitutes**
  - D. Climate**
- 9. What best describes economies of scale?**
- A. Discounts secured by businesses who are able to buy in bulk, leading to lower average costs.**
  - B. Costs per unit rise as output increases.**
  - C. Average costs stay the same as output grows.**
  - D. They only apply to large firms and not to small firms.**
- 10. Which external source category provides unemployment rates and tax rates?**
- A. Gov sources**
  - B. Business Contacts**
  - C. Trade Associations**
  - D. News & media**

## Answers

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1. B
2. D
3. A
4. A
5. A
6. C
7. B
8. B
9. A
10. A

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## **Explanations**

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**1. Which cost represents the total of fixed costs and variable costs?**

- A. Fixed costs
- B. Total costs**
- C. Variable costs
- D. Average costs

Total cost is the sum of what doesn't change with output (fixed costs) and what varies with output (variable costs). Fixed costs stay the same regardless of production in the relevant period, while variable costs depend on the level of production. Add the fixed amount to the variable amount to get total costs. For example, if fixed costs are 1,000 and producing 500 units incurs 3 per unit in variable costs, variable costs are 1,500, so total costs equal 2,500. Average costs would be total costs divided by the number of units produced, not the sum itself.

**2. ROCE tells how well capital is used to generate profits. Which option best reflects this statement?**

- A. It indicates cash flow availability
- B. It measures how well capital is used to generate profits
- C. It measures market share
- D. It equals total assets**

ROCE measures how efficiently a company uses the capital invested to generate profits. It compares operating profit to the capital employed in the business, which is typically equity plus long-term liabilities (or total assets minus current liabilities). This focuses on profitability per unit of capital, showing how effectively the assets and financing structure turn into earnings. It isn't about cash flow availability (liquidity), nor about market share, and it isn't simply equal to total assets, since capital employed is a specific measure of the funds actually used to generate profits. So the statement is best reflected by the idea that ROCE indicates how well capital is used to generate profits.

**3. Which of the following is listed as a disadvantage of unrestricted international trade?**

- A. Unemployment from unrestricted trade**
- B. Higher wages for workers
- C. Increased efficiency
- D. Greater specialization

Unrestricted international trade can create job losses in domestic industries that struggle to compete with cheaper imports. When borders open up, some firms shrink or shut down, and workers in those sectors may become unemployed. This is a straightforward downside of trade liberalization, especially in the short to medium term while the economy reallocates resources and workers retrain. The other potential effects described—higher wages for workers, increased efficiency, and greater specialization—are typically viewed as benefits of open trade, since competition and a focus on areas of comparative advantage tend to raise productivity and living standards. Therefore, unemployment from unrestricted trade is the fitting disadvantage being highlighted.

4. In a credit agreement, what term describes an asset held to secure repayment of the debt?

**A. Collateral**

**B. Reserve**

**C. Deposit**

**D. Guaranty**

Collateral is the asset held to secure repayment of a debt. In a credit agreement, lenders take ownership rights or a security interest in something of value—like property, equipment, inventory, or receivables—to protect themselves if the borrower doesn't pay. If the borrower defaults, the lender can seize or sell the collateral to recover what's owed, which lowers the lender's risk and can influence the terms and interest rate of the loan. This is different from a guaranty, where a third party promises to pay if the borrower defaults, rather than providing an asset that can be seized. Deposits or reserves aren't the same mechanism for securing repayment in the same way, though they might be used as part of overall arrangements in some contexts.

5. The base rate is the rate around which all rates are set. True or False?

**A. True**

**B. False**

**C. Not defined**

**D. Not used in practice**

A base rate serves as the reference point for pricing many financial products. Banks typically quote a loan rate as base rate plus a margin that reflects risk, term, and other factors. Because these margins are added to that same starting point, the base rate acts as the anchor around which other rates are set. Central banks influence the base rate, which then shapes the rates offered to borrowers. So the statement is true. If someone thought it isn't defined or isn't used in practice, they'd be overlooking how benchmark rates guide the pricing of most lending.

6. During the boom stage, which of the following is observed?

**A. Unemployment rises sharply**

**B. Budget deficit occurs**

**C. Inflation tends to rise and imports may increase**

**D. Economic growth stops**

In the boom phase, demand is very strong and the economy is operating near full capacity. This tends to push up prices as firms face greater demand for goods and services, leading to inflation rising. At the same time, higher incomes and purchasing power increase import demand, so imports may rise. Unemployment is usually low, and growth continues, so the idea that growth stops or unemployment rises sharply doesn't fit a boom. Budget deficits aren't a defining feature of a boom either; they depend on fiscal policy and other factors. So the observed pattern of rising inflation and increasing imports best matches the boom phase.

**7. Which market trades instruments whose value derives from underlying assets?**

**A. Money Market**

**B. Derivatives Market**

**C. Insurance Market**

**D. FOREX Market**

The main idea here is instruments whose value is shaped by another asset. That describes derivatives, which include futures, options, and swaps. In these contracts, the payoff depends on the price or performance of an underlying asset such as a stock, commodity, or index. Because the value of the contract is contingent on how that underlying asset moves, the derivatives market is where these instruments are traded. The other markets operate differently. The money market deals with short-term debt instruments and their current value is driven by interest rates and credit quality, not by another asset's price. The FOREX market focuses on exchanging currencies themselves, not on contracts whose value hinges on underlying asset movements (aside from occasional derivatives within that market). The insurance market centers on transferring risk and setting premiums, not on deriving value from price movements of an underlying asset.

**8. Which of the following is a factor used to determine the price elasticity of demand?**

**A. Time since last price change**

**B. Brand loyalty**

**C. Availability of substitutes**

**D. Climate**

Price elasticity of demand measures how much the quantity demanded changes when price changes. A key factor shaping that responsiveness is brand loyalty. When customers feel loyal to a brand, they're less likely to switch to alternatives if the price rises, so demand for that brand becomes more inelastic. In other words, loyalty dampens the effect of price changes on quantity sold because the consumer values the brand and sticks with it despite price moves. Climate isn't relevant to how responsive buyers are to price. Time since the last price change can influence how quickly buyers adjust, but it doesn't determine the inherent degree of responsiveness. Availability of substitutes does affect elasticity in general, since more substitutes make switching easier, but loyalty specifically describes the commitment to a single brand and its impact on price responsiveness.

**9. What best describes economies of scale?**

- A. Discounts secured by businesses who are able to buy in bulk, leading to lower average costs.**
- B. Costs per unit rise as output increases.**
- C. Average costs stay the same as output grows.**
- D. They only apply to large firms and not to small firms.**

Economies of scale happen when increasing production leads to a lower average cost per unit. A concrete way this occurs is through bulk purchasing: buying inputs in larger quantities often lets a firm secure discounts, reducing the cost per unit of output. This is a clear example of the cost advantages that come with scale. As output grows, fixed costs can be spread over more units and operations can become more efficient, further lowering average costs. While there are other sources of these gains (like more efficient use of machinery or specialized labor), the key idea is that higher production helps reduce the cost per unit. The statement about bulk discounts directly captures this effect, whereas alternatives describe rising costs, unchanged costs, or imply only large firms can benefit—none of which fit the concept as well.

**10. Which external source category provides unemployment rates and tax rates?**

- A. Gov sources**
- B. Business Contacts**
- C. Trade Associations**
- D. News & media**

Unemployment rates and tax rates are official macroeconomic data produced by the government. Government statistical agencies and tax authorities collect, verify, and publish these figures in a standardized way, updating them regularly. Because they come from the official policy bodies and use consistent methodologies, they are the most reliable source for these rates and brackets. Other external sources can provide useful context, but they don't supply the official numbers themselves. Business contacts offer practical, firm-level perspectives; trade associations cover industry-specific data; news and media report on figures but typically rely on government releases and may add interpretation or delays.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://cimaba1.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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