

BUSINESS-ENVIRONMENT-AND- CONCEPTS^{Q&As}

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QUESTION 1

The inflation rate measures:

- A. The rate at which nominal GDP increases.
- B. How the price of a particular good changes over time.
- C. How nominal interest rate changes over time.
- D. The rate at which the overall price level increases.

Correct Answer: D

Choice "d" is correct. The inflation rate measures the rate of increase in the overall price level in the economy.

Choice "a" is incorrect. The inflation rate is associated with price level changes not changes in the nominal value of output.

Choice "b" is incorrect. Inflation refers to a sustained increase in the overall price level. Not the price of a particular good.

Choice "c" is incorrect. The inflation rate is associated with price level changes not interest rate changes.

QUESTION 2

Gartshore Inc. is a mail-order book company. The Company recently changed its credit policy in an attempt to increase sales. Gartshore's variable cost ratio is 70 percent and its required rate of return is 12 percent. The company projects that annual sales will increase from the current level of \$360,000 to \$432,000, but the average collection period on receivables will go from 30 days to 40 days. Ignoring any tax implications, what is the cost of carrying the additional investment in accounts receivable, using a 360day year?

- A. \$1,512
- B. \$2,000
- C. \$2,160
- D. \$12,600

Correct Answer: A

Choice "a" is correct. The cost of carrying accounts receivable now is the variable cost of creating the account receivable times the cost of that capital during the collection period. The cost of the investment in accounts receivable is now:

\$360,000 Sales (70%) (12%) (30 Days/360 Days)	= \$2,520
The cost of the investment under the new proposal is \$432,000 Sales (70%) (12%) (40 Days/360 Days)	= \$4,032
The difference in the two alternatives is	<u>\$1,512</u>

Choice "c" is incorrect. This considers the entire account receivable as a cost. Choices "b" and "d" are incorrect, per the above calculation.

QUESTION 3

Cyclical unemployment results from:

- A. Skills of workers not corresponding to jobs available.
- B. The time it takes to match qualified workers with available jobs.
- C. Seasonal decreases in demand for labor.
- D. A recession in the economy.

Correct Answer: D

Choice "d" is correct. Cyclical Unemployment is caused by the business cycle. It tends to rise during a recession and fall during an expansion.

Choice "a" is incorrect. This is an example of structural unemployment.

Choice "b" is incorrect. This is an example of frictional unemployment.

Choice "c" is incorrect. This is an example of seasonal unemployment.

QUESTION 4

Which one of the following is most likely to accompany a reduction in aggregate demand?

- A. An increase in the price level.
- B. A decrease in employment.
- C. An increase in real GDP.
- D. A decrease in the unemployment rate.

Correct Answer: B

Choice "b" is correct. As aggregate demand falls, the unemployment rate rises so employment would decrease.
