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QUESTION 1

The benefits of a just-in-time system for raw materials usually include:

- A. Elimination of nonvalue adding operations.
- B. Increase in the number of suppliers, thereby ensuring competitive bidding.
- C. Maximization of the standard delivery quantity, thereby lessening the paperwork for each delivery.
- D. Decrease in the number of deliveries required to maintain production.

Correct Answer: A

Choice "a" is correct. The just-in-time system focuses on expediting the production process by having materials available as needed without having to store them prior to usage. Thus, the nonvalue adding operation of storing materials is eliminated. Choice "b" is incorrect. A just-in-time system is designed to facilitate the flow of materials whether the materials come from one or more suppliers. Competitive bidding is not a major benefit of the just-in-time system. Choice "c" is incorrect. Maximizing the delivery quantity of materials may increase the need to store the materials prior to using them. The just-in-time system focuses on minimizing storage time and storage costs. Lessening paperwork is not a focus of the just-in-time system. Choice "d" is incorrect. With a just-in-time system, deliveries are made as materials are needed. A decrease in deliveries may increase the delivery quantity, thus increasing the need to store the materials prior to using them. The just-in-time system focuses on minimizing storage time and storage costs.

QUESTION 2

At the peak of a business cycle:

- A. Output (real GDP) tends to be below the potential level of output.
- B. There is likely to be an excess supply of labor and business inventories are likely to be high.
- C. The overall price level is likely to be falling.
- D. Capacity constraints and labor shortages are likely to put upward pressure on the overall price level.

Correct Answer: D

Choice "d" is correct. The peak of a business cycle marks the highest point of economic activity. At that point, firms are likely to face capacity constraints and labor shortages, which will put upward pressure on the overall price level.

Choice "a" is incorrect. Real GDP is likely to be above, not below, its potential level.

Choice "b" is incorrect. Business inventories are likely to be low, not high, and there is likely to be excess demand for labor not an excess supply of labor.

Choice "c" is incorrect. The overall price level is likely to be rising not falling.



QUESTION 3

Downs, Frey, and Vick formed the DFV general partnership to act as manufacturers' representatives. The partners agreed Downs would receive 40% of any partnership profits and Frey and Vick would each receive 30% of such profits. It was also agreed that the partnership would not terminate for five years. After the fourth year, the partners agreed to terminate the partnership. At that time, the partners' capital accounts were as follows: Downs, \$20,000; Frey, \$15,000; and Vick, \$10,000. There also were undistributed losses of \$30,000. Which of the following statements about the form of the DFV partnership agreement is correct?

- A. It must be in writing because the partnership was to last for longer than one year.
- B. It must be in writing because partnership profits would not be equally divided.
- C. It could be oral because the partners had explicitly agreed to do business together.
- D. It could be oral because the partnership did not deal in real estate.

Correct Answer: A

Choice "a" is correct. Under the statute of frauds, an agreement, which by its terms cannot be performed within a year, must be evidenced by a writing containing the material terms and signed by the parties to be charged. Absent a writing, the partnership will be treated as a partnership at will. Choice "b" is incorrect. There is no requirement that partnership agreements be in writing merely because profits will be divided unequally. Choice "c" is incorrect. The statute of frauds requires contracts that cannot by their terms be performed within one year to be evidenced by a writing containing the material terms and signed by the parties to be charged. Choice "d" is incorrect. Whether or not a partnership is to deal in real estate is irrelevant to whether the partnership agreement must be in writing.

QUESTION 4

Which of the following statements regarding competitive advantage is not true?

- A. The two major forms of competitive advantage are product differentiation and cost leadership.
- B. If the manufacturing costs of a firm are less than those of close rivals, then the firm has a competitive market advantage.
- C. Cost leadership advantage may be the best be obtained by a firm when a firm builds market shares or matches the price of its rivals.
- D. Differentiation advantage may best be obtained by a firm when a firm builds market share or increases its price.

Correct Answer: B

Choice "b" is the proper choice, as it is not a true statement. Simply because the manufacturing costs of a firm are less than those of close rivals, this does not necessarily mean that the firm has a competitive market advantage. Only if TOTAL costs to a firm are less than those of close rivals will a firm have a competitive market advantage. Choices "a", "c", and "d" are incorrect, as they are all true statements.

QUESTION 5

The following table contains Emerald Corp.'s quarterly revenues, in thousands, for the past three years. During that time, there were no major changes to Emerald's selling strategies and total capital investment.



<u>Year</u>	<u>1st Qtr.</u>	<u>2nd Qtr.</u>	<u>3rd Qtr.</u>	<u>4th Qtr.</u>
Year 1	500	500	550	750
Year 2	525	550	600	800
Year 3	550	525	625	850

Which of the following statements best describes the likely cause of the fluctuations in Emerald's revenues and the best response to those fluctuations?

- A. The fluctuations are from changes in the economy, and Emerald should examine its cost structure for potential changes.
- B. The fluctuations are from changes in the economy, and Emerald should manage its inventories and cash flow to match the cycle.
- C. The fluctuations are from the seasonal demand for Emerald's products, and Emerald should examine its cost structure for potential changes.
- D. The fluctuations are from the seasonal demand for Emerald's products, and Emerald should manage its inventories and cash flow to match the cycle.

Correct Answer: D

Choice "d" is correct. Relatively stable demand over a three year period in each of the first three quarters of the year followed by an increase of between 40 and 50 percent in the final quarter of the year over average sales in the first three quarters in each of the three years presented is indicative of seasonal fluctuations in demand for Emerald's product that would require appropriate inventory management. Choice "a" is incorrect. The consistent volume levels and fluctuation percentages displayed for the activity in each quarter for each year are indicative of changes in seasonal demand rather than changes in the economy generally. Choice "b" is incorrect. The consistent volume levels and fluctuation percentages displayed for the activity in each quarter for each year are indicative of changes in seasonal demand rather than changes in the economy generally. Choice "c" is incorrect. Relatively stable demand over a three year period in each of the first three quarters of the year followed by an increase of between 40 and 50 percent in the final quarter of the year over average sales in the first three quarters in each of the three years presented is indicative of seasonal fluctuations in demand for Emerald's product. The company should be more attentive to the timing of inventory purchases to meet demand, however, rather than the company's overall cost structure.

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