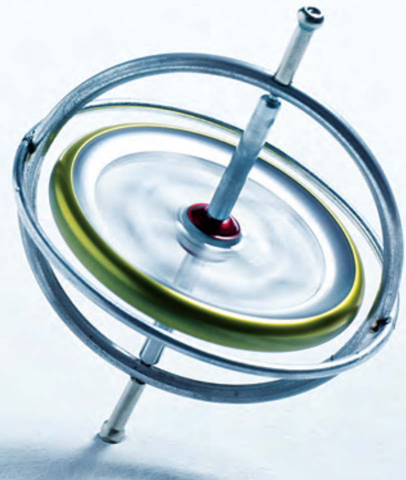

Fundamentals of Business Economics

Certificate level | Subject BA1

CIMA official revision cards

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How to use Revision Cards

The concept

- Revision Cards are a new and different way of learning, based upon research into learning styles and effective recall.
- The cards are in full colour and have text supported by a range of images, making them far more effective for visual learners and easier to remember.
- Unlike a bound text, Revision Cards can be rearranged and reorganised to appeal to kinaesthetic learners who prefer to learn by doing.
- Being small enough to carry around means that you can take them anywhere. This gives the opportunity to keep going over what you need to learn and so helps with recall.
- The content has been reduced down to the most important areas, making it far easier to digest and identify the relationships between key topics.
- Revision Cards, however you learn, whoever you are, wherever you are.........

How to use them

Revision Cards are a pack of cards, slightly bigger than traditional playing cards but still very easy to carry and so convenient to use when travelling or moving around. They can be used during the tuition period or at revision.

They are broken up into 4 sections.

- An overview of the entire subject in a mind map form (orange).
- A mind map of each specific topic (blue).
- Content for each topic presented so that it is memorable (green).
- Exam tips with references to past questions on each topic (purple).

Each one is a different colour, allowing you to sort them in many ways.

- Perhaps you want to get a more detailed feel for each topic, why not take all the green cards out of the pack and use those.
- You could create your own mind maps using the blue cards to explore how different topics fit together.
- If at the revision phase why not take all the purple cards and work through the past questions identified.
- And if there are some topics that you understand, take those out of the pack, leaving yourself only the ones you need to concentrate on.

There are just so many ways you can use them.

Contents

Exam guidance

Format of exam

The assessment for Fundamentals of Business Economics (BA1) is a two hour computer based exam consisting of 60 compulsory questions.

A variety of objective test question styles and types will be used within the assessment, such as:

Multiple choice, multiple response, number entry, drag and drop, drop down and hot spot.

Core areas of the syllabus

The syllabus comprises of

A	Macroeconomic and institutional context of business	25%
B	Microeconomic and organisational context of business	30%
C	Informational context of business	20%
D	Financial context of business	25%

overview

fundamentals of business economics

RevisionCards


Fundamentals of business economics
Inter-relationships between variables
Forecasting
The Goals and Decisions of Organisations
Index Numbers
The Market System
Summarising and Analysing Data
Financial Context of Business I
Discounting and Investment Appraisal
The Domestic Economy
Financial Context of Business II: International Aspects
International Economy

microeconomic and organisational context I: the goals and decisions of organisations

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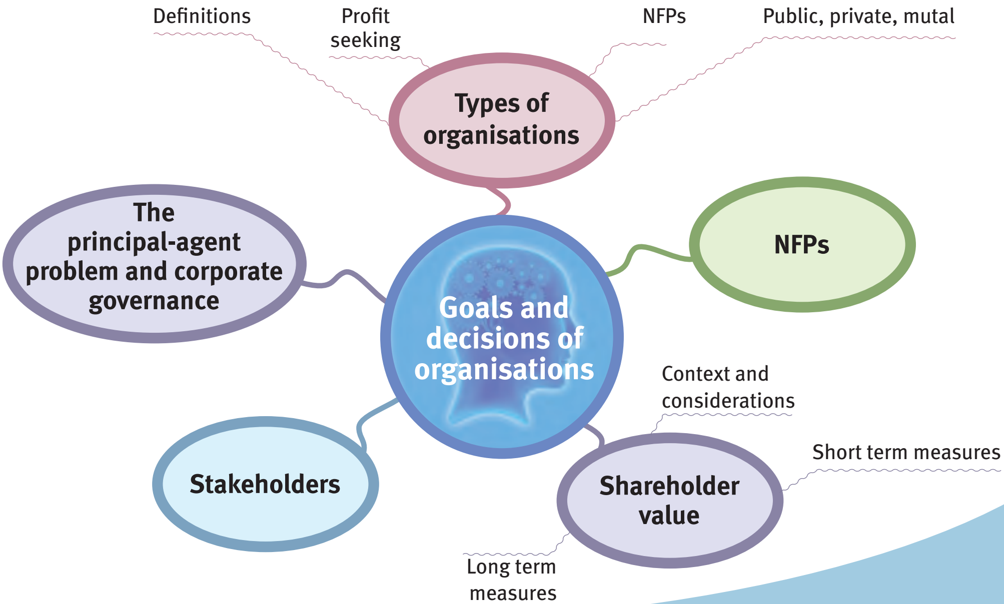

Definitions
Profit seeking
NFPs
Public, private, mutal
Types of organisations
The principal-agent problem and corporate governance
NFPs
Goals and decisions of organisations
Context and considerations
Short term measures
Stakeholders
Shareholder value
Long term measures

Definitions

'Organisations are social arrangements for the controlled performance of collective goals.' (**Buchanan and Huczynski**)

The key aspects of this definition are as follows:

- 'Collective goals' – organisations are defined primarily by their goals. A school has the main goal of educating pupils and will be organised differently from a company where the main objective is to make profits.
- 'Social arrangements' – someone working on his own does not constitute an organisation. Organisations have structure to enable people to work together towards the common goals. Larger organisations tend to have more formal structures in place but even small organisations will divide up responsibilities between the people concerned.
- 'Controlled performance' – organisations have systems and procedures to ensure that goals are achieved. These could vary from ad-hoc informal reviews to complex weekly targets and performance review.

Types of organisation (1)

- Private organisations owned by individuals, partners or shareholders.
- Mutual organisations owned by employees, customers or members.
- Public organisations owned by central or local government bodies.

In principle, the organisational goals will reflect the aims and objectives of the organisations' owners.

Types of organisation (2)

- Profit: profit-seeking organisations are mainly in the private sector; the main goal is returns to shareholders.
- Not-for-profit organisations may exist in the public sector, e.g. education, local government services, some nationalised industries.
- Not-for-profit organisations may exist in the private sector, e.g. mutual organisations, charities, clubs.
- Not-for-profit organisations may have service effectiveness, public welfare, etc. as their objectives.

Not for profit organisations (NFPs)

Financial considerations

Not-for-profit organisations may make surpluses but this is not the main objective.

Not-for-profit organisations still need to use resources efficiently and effectively.

NB. Profit-seeking organisations may have other objectives, e.g. the notion of ‘ethical’ business or ‘green business’. These will be subordinate to the profit motive.

Objectives or constraints?

Many NFPs view financial matters as constraints under which they have to operate, rather than objectives.

For example,

- Hospitals seek to offer the best possible care to as many patients as possible, subject to budgetary restrictions imposed upon them.
- Councils organise services such as refuse collection, while trying to achieve value for money with residents’ council tax.
- Charities may try to alleviate suffering subject to funds raised.

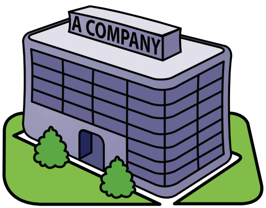
Shareholder wealth

Context

Companies have the primary objective of maximising shareholder wealth.

This should ultimately be reflected in

- higher share prices
- higher dividend payments.



Considerations

Attempts to measure and increase shareholder value have focussed on incorporating three key issues:

- Cash is preferable to profit.

  Cash flows have a higher correlation with shareholder wealth than profits.
- Exceeding the cost of capital.

  The return must cover the cost of debt and the cost of equity (the return required by shareholders).
- Managing both long- and short-term perspectives.

  Investors are increasingly looking at long-term value.

Shareholder wealth – short term measures

Rate of return on capital employed (ROCE)

- ROCE compares the stream of profits before tax and interest payments with the value of capital employed.
- It thus measures the productivity of capital and the ability of the company to generate a flow of potential dividends to shareholders.
- ROCE is measured as:

$$\frac{\text{profit before tax and interest}}{\text{average value of capital employed}} \times 100$$

Earnings per share (EPS)

$$\text{EPS} = \frac{\text{profit after tax, interest and preference share dividends}}{\text{number of shares}}$$

Shareholder wealth – long term measures

Estimate long term future cash flows and discount at the cost of capital (see later)

Stakeholders

A stakeholder is a group or individual, who has an interest in what the organisation does, or an expectation of the organisation.

Stakeholders have both an interest in and influence over the organisation, though to varying degrees.

Stakeholders can be broadly categorised into three groups:

- internal, e.g. employees;
- connected, e.g. shareholders;
- external, e.g. government.

Identifying and resolving stakeholder conflict is a key challenge for management (even in NFPs)

Stakeholders	**Conflict**
Employees versus managers	Jobs/wages versus bonus (cost efficiency)
Customers versus shareholders	Product quality/service levels versus profits/dividends
General public versus shareholders	Effect on the environment versus profit/dividends
Managers versus shareholders	Growth versus independence