Practice Paper 2

NOTE: This is the second full-length practice paper. The first is in Appendix E of the print book (different scenarios, same structure). This paper mirrors the official 2026–2027 AP Business with Personal Finance exam format: 60 MCQs in 70 minutes (60% of score), one Business Canvas Validation FRQ in 25 minutes (15%), and three Part B FRQs in 65 minutes (25%). Take this exam under timed conditions for realistic prep. Calculator policy: handheld 4-function OR Bluebook's Desmos 4-function calculator only.

ALL SCENARIOS, NAMES, AND BUSINESSES BELOW ARE FICTIONAL. ORIGINAL SYNAPSE ACADEMIC PRESS CONTENT.

Section I: Multiple Choice

60 Questions | 70 Minutes | 60% of Exam Score

Directions: Each question is followed by four answer choices. Many appear in stimulus-based sets of 3 or 4 sharing a common chart, table, scenario, or financial statement. Select the best answer. No penalty for incorrect answers.

Questions 1–4 refer to the following scenario.

Tomás founded Ironroot Cider three years ago and has been the sole owner ever since. He has never registered a separate legal entity. Ironroot earned $96,000 in revenue last year and reported a net loss of $8,200. Tomás paid for all business expenses from his personal checking account and listed the loss on his personal income tax return. He is now weighing two options: (A) take on a co-owner who would invest $55,000 in exchange for a 40% ownership stake, or (B) convert Ironroot to a single-member limited liability company before seeking outside investment.

1. Based on the information provided, Ironroot Cider is currently organized as which type of business?

A. Sole proprietorship
B. C corporation
C. General partnership
D. Limited liability company

2. Which of the following describes the most significant legal risk Tomás faces under his current business structure?

A. He must pay double taxation on all business profits.
B. He is personally liable for all debts and legal claims against the business.
C. He cannot deduct business losses on his personal tax return.
D. He is required to have at least one additional owner to operate legally.

3. If Tomás accepts the $55,000 from the co-owner and forms a general partnership, which statement is most accurate about what changes?

A. The business now files as a C corporation for federal tax purposes.
B. The partnership must issue stock to employees within 90 days.
C. Tomás's personal liability is now limited to his original capital contribution.
D. Both partners share unlimited personal liability for all business obligations.

4. Tomás decides instead to convert Ironroot Cider to a single-member LLC before seeking investors. The primary advantage of this structure compared to his current arrangement is

A. automatic exemption from all state income tax
B. the ability to list shares on a national stock exchange
C. limited personal liability while retaining default pass-through taxation
D. elimination of the annual franchise reporting requirement in all states

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Questions 5–8 refer to the following PESTEL table.

Sasha manages operations for Hollowstone Pottery Works, a studio and retail shop that sells handmade ceramic goods. She has compiled the following developments for a quarterly strategy review.

Factor	Recent Development
1	A new municipal ordinance requires all commercial kilns to install upgraded ventilation filters within 12 months.
2	Consumer confidence in the region fell 6 points over the last two quarters as layoffs rose in the manufacturing sector.
3	Online searches for “handmade pottery gifts” increased 34% year over year, driven largely by users aged 25–40.

Factor	Recent Development
4	A major craft-marketplace platform released an upgraded seller toolkit – AI-assisted listing creation and integrated shipping software – that cuts the time and cost for independent makers to sell online.
5	A new glaze-firing technology reduces kiln energy use by up to 22% compared to traditional methods.

5. Development 1 is best classified as which PESTEL factor?

A. Economic
B. Social
C. Technological
D. Political/Legal

6. Development 2 most directly affects Hollowstone Pottery Works by

A. increasing the cost of raw materials such as clay and glazes
B. cutting the time and cost of listing products on online platforms
C. reducing consumer spending on discretionary goods like handmade pottery
D. requiring the studio to install new ventilation equipment immediately

7. Together, Developments 3 and 4 suggest that Hollowstone should most seriously consider

A. closing its retail storefront and moving production overseas
B. raising prices across all product lines to reflect increased demand
C. expanding its online presence on the upgraded platform to reach the growing handmade-pottery audience
D. eliminating custom orders to focus only on wholesale

8. Which two developments in the table are most clearly Technological factors?

A. Developments 1 and 3
B. Developments 2 and 4
C. Developments 3 and 5
D. Developments 4 and 5

Questions 9–11 refer to the following scenario.

Beatriz has an idea for a subscription service called PaperRoot that delivers locally foraged botanical items – dried flowers, pressed ferns, moss samples – in monthly curated boxes for hobbyist nature enthusiasts. Before leasing warehouse space or ordering branded packaging in bulk, she sells 30 "founding member" boxes assembled from her own kitchen, texts a feedback form to each buyer, and tracks renewal rates after 30 days.

9. Beatriz's 30-box trial is best described as

A. a hypothesis test to gather evidence about desirability before committing to fixed costs
B. a full product launch designed to maximize first-month revenue
C. a backward vertical integration strategy
D. a market-penetration pricing campaign

10. After 30 days, 22 of the 30 founding members renewed. Which type of evidence does this renewal rate most directly provide?

A. Evidence about desirability – whether customers value the product enough to pay again
B. Evidence about viability – whether the subscription price covers all costs
C. Evidence about feasibility – whether Beatriz can source and pack the boxes reliably
D. Evidence about legality – whether foraging regulations allow commercial resale

11. Which of the following findings from the feedback forms would give Beatriz the strongest reason to pause before signing a 12-month warehouse lease?

A. Beatriz's cost to source, assemble, and ship each box is $38, and she is charging $29 per box.
B. Average rating of 4.7 out of 5, with the most common compliment being "love the curation."
C. Seventeen of 30 buyers said they discovered PaperRoot through a friend.
D. Two buyers asked whether Beatriz could ship to Canada.

Questions 12–14 refer to the following scenario.

Indira founded Clearwater Tutoring Co., which connects certified teachers with K–8 students for after-school tutoring sessions in math and reading. She has drafted the statements below.

Statement Type	Clearwater's Statement
Vision	"Every child in our region enters middle school reading and calculating at grade level."
Mission	"We match certified teachers with K–8 students and deliver measurable academic progress through personalized sessions."
Goal	"Increase the number of active student-teacher pairs from 140 to 196 by the end of Q4 of next year."

12. Which of the following best describes the functional difference between Clearwater's vision and its mission?

A. The vision describes the day-to-day operations; the mission describes long-term funding.
B. The vision and mission are equivalent statements serving identical purposes.
C. The vision is a legal requirement; the mission is optional for nonprofits only.
D. The vision articulates a long-term aspirational outcome; the mission describes what the company currently does and for whom.

13. The goal of increasing student-teacher pairs from 140 to 196 qualifies as a SMART goal primarily because it is

A. strategic, manageable, accountable, recurring, and tested
B. simple, mandatory, agreed-on, reviewed, and total
C. supportive, motivational, actionable, realistic, and tracked
D. specific, measurable, achievable, relevant, and time-bound

14. If Clearwater ended Q4 with 175 active student-teacher pairs, what percentage of the 196-pair goal did it achieve? (Round to the nearest whole percent.)

A. 75%
B. 82%
C. 89%
D. 93%

Questions 15–17 refer to the following ethics scenario.

Omar is a product manager at GreenPath Packaging, a B2B company that sells sustainable food-service containers. He learns that a colleague, the head of procurement, has been accepting quarterly gift cards from a supplier – ValueSeal Corp. – in exchange for consistently awarding ValueSeal contracts that are, on average, 9% more expensive than competing bids. GreenPath has a written vendor-ethics policy prohibiting gifts above $25 and requiring competitive bids for contracts over $10,000.

15. The procurement head's conduct is best described as

A. a conflict of interest that violates GreenPath's ethics policy and likely constitutes commercial bribery
B. a legal aggressive-negotiation tactic permitted by corporate policy
C. an acceptable long-term supplier relationship-building practice
D. an operational efficiency strategy that reduces procurement complexity

16. Which stakeholder group is most directly harmed by the procurement head's conduct?

A. Only Omar, because he discovered the misconduct
B. GreenPath's shareholders, employees, and customers – who bear the cost of above-market contract prices
C. ValueSeal Corp. exclusively – because they pay the gift cards
D. The competing suppliers only – because they lose contracts

17. Which course of action most aligns with Omar's professional and ethical responsibility?

A. Ignore the issue because it does not affect Omar's department budget directly
B. Confront ValueSeal Corp. directly and demand a credit on the next invoice
C. Post the gift-card records on a public review site to force supplier accountability
D. Report the conduct through GreenPath's internal ethics or whistleblower channel and preserve documentation

Questions 18–21 refer to the following customer data table.

Reza is the head of growth at an online fitness app called FlexPulse. The CRM table below summarizes the four user segments FlexPulse tracks.

Segment	Avg. Monthly Revenue/ User	Avg. Sessions/ Week	Push-Notification Open Rate	% of User Base
Casual Starters	$9.99	1.2	14%	41%
Committed Athletes	$19.99	5.8	63%	18%
Family Plan Users	$14.99	3.1	29%	24%
Churned (90+ days inactive)	$0	0	6%	17%

18. Based on the table, which user segment generates the highest average monthly revenue per user?

A. Casual Starters
B. Churned
C. Family Plan Users
D. Committed Athletes

19. Reza proposes a re-engagement push-notification campaign targeting the Churned segment. Which is the strongest argument against that proposal based on the data?

A. Churned users cannot legally receive push notifications.
B. The Churned segment generates the highest revenue per user.
C. The Churned segment has a 6% notification open rate, meaning most messages will not be seen.
D. The Churned segment is the largest portion of the user base.

20. Which segment combines the highest session frequency with the highest revenue per user, making it the most efficient target for a premium loyalty feature?

A. Casual Starters
B. Family Plan Users
C. Committed Athletes
D. Churned

21. FlexPulse wants to identify the traits of users most likely to convert from Casual Starters to Committed Athletes. Which research approach would most directly help?

A. Cohort analysis of Casual Starters who upgraded, compared to those who did not
B. Competitor app store rating comparisons only
C. An internal audit of server uptime records
D. Inventory analysis of FlexPulse branded merchandise

Questions 22–24 refer to the following scenario.

Daniela is a behavioral marketing consultant for a nonprofit called Second Harvest Kitchen, which collects and redistributes surplus restaurant meals to community shelters. She is testing a new donor appeal that applies Cialdini's principles of influence.

22. A donor receives a handwritten thank-you card from a shelter resident along with the next donation ask. Which Cialdini principle does this approach most directly activate?

A. Scarcity
B. Reciprocity
C. Authority
D. Liking

23. Second Harvest Kitchen's newsletter includes the line: "Last month, 4,312 of your neighbors supported Second Harvest Kitchen – will you join them?" This line most directly applies which principle?

A. Commitment and consistency
B. Scarcity
C. Consensus (social proof)
D. Authority

24. Daniela is testing a subject line that reads: "Only 48 hours left to double your impact – our matching grant expires Friday." This appeal combines urgency with which other Cialdini principle?

A. Scarcity – because the deadline limits the availability of the matching opportunity
B. Liking – because it mentions a third party (the matching donor)
C. Reciprocity – because the matching donor gives first
D. Authority – because it implies a corporate sponsor's endorsement

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Questions 25–27 refer to the following market research data.

Ariella is the brand director at Solstice Skincare, a direct-to-consumer moisturizer brand. She commissioned a 500-person survey of adult skincare shoppers and received the following results.

Question	Response	% of Respondents
“Have you heard of Solstice Skincare?”	Yes	31%
“Have you heard of Solstice Skincare?”	No	69%
Among those aware: “Have you purchased Solstice?”	Yes	44%
Among those who have purchased: “Would you recommend it to a friend?”	Yes	78%
Among those NOT aware: “Would you be willing to try a new skincare brand?”	Yes	52%

25. Approximately how many of the 500 surveyed shoppers said they would be willing to try a new skincare brand despite not knowing Solstice?

A. 130
B. 179
C. 156
D. 260

26. Ariella concludes that Solstice’s biggest growth bottleneck is brand awareness, not product satisfaction. Which finding most directly supports this interpretation?

A. 44% of those aware have already purchased.
B. The survey sample size was only 500 respondents.
C. 52% of unaware shoppers are open to trying a new brand.
D. 78% of purchasers would recommend the product, but 69% of shoppers have never heard of it.

27. Based on the data, which marketing action would most directly address the bottleneck Ariella identified?

A. Invest in awareness-building campaigns – such as social media, earned media, and sampling – to expand brand recognition among the 69% who do not know Solstice.
B. Lower prices to drive trial among current brand-aware non-purchasers.
C. Discontinue the product line because awareness is too low to recover.
D. Eliminate the product recommendation program because satisfaction is already high enough.

Questions 28–30 refer to the following pricing scenario.

Kenji runs Saffron House, a specialty spice and pantry goods shop. His signature blended curry powder costs $4.20 per unit to produce (ingredients, jar, and label). He currently sells 900 units per month at $12.99 each. He is evaluating three pricing options for the next quarter.

Option	Strategy	New Price	Expected Monthly Volume
1	Hold price	$12.99	900
2	Value-based premium	$16.99	680
3	Penetration discount	$10.49	1,250

28. Under Option 1, what is Saffron House's monthly contribution margin (total revenue minus total variable cost)?

A. $3,780
B. $11,691
C. $7,911
D. $14,490

29. Which option produces the highest monthly contribution margin?

A. Option 1
B. Options 1 and 2 are equal.
C. Option 3
D. Option 2

30. Which of the following is the strongest nonfinancial argument against choosing Option 3?

A. A lower price guarantees lower product quality in the customer's mind.
B. Penetration pricing is prohibited for specialty food products by federal regulation.
C. Option 3 is guaranteed to decrease total monthly volume.
D. A permanently lower price may anchor customer expectations and make future price increases difficult without risking customer backlash.

Questions 31–33 refer to the following personal finance scenario.

Sasha is 23 years old and works as a junior data analyst in Chicago. Her annual gross salary is $58,000. After federal income tax, state income tax, Social Security, Medicare, and a health insurance premium, her monthly take-home pay is $3,480. Sasha uses the 50/30/20 budget framework based on her take-home pay.

31. Under the 50/30/20 framework, how much of Sasha's monthly take-home should she allocate to needs?

A. $696
B. $1,740
C. $1,044
D. $2,320

32. Sasha's actual monthly needs (rent, utilities, groceries, transit pass) total $2,088. Compared to the 50/30/20 target for needs, her spending is

A. exactly on target
B. above target by approximately $348
C. below target by approximately $348
D. above target by approximately $696

33. Sasha's employer offers a 401(k) with a 100% match on the first 3% of gross salary she contributes. If Sasha contributes 3% of her $58,000 gross annual salary, what is the total annual amount deposited into her 401(k) – her contribution plus the employer match?

A. $1,740
B. $2,610
C. $4,350
D. $3,480

Questions 34–36 refer to the following credit scenario.

Naomi, age 24, has two debts: a credit card with a $3,600 balance at 21.99% APR and a private student loan with an $11,500 balance at 6.8% APR. The credit card minimum payment is 2% of the outstanding balance or $25, whichever is greater. She has $300 per month of extra cash above her minimum payments.

34. Approximately how much interest does Naomi accrue on the credit card balance in a single month, assuming no new charges and the balance remains at $3,600?

A. $8
B. $792
C. $99
D. $66

35. Which of the following best explains why Naomi should direct the extra $300 toward the credit card rather than the student loan?

A. The credit card carries a much higher APR, so each extra dollar reduces more interest cost.
B. Student loans cannot be paid off early under federal law.
C. Credit card interest is always tax-deductible for personal cardholders.
D. The student loan principal is larger, so it must be paid first.

36. Naomi is offered a 0% APR promotional balance-transfer card with a 3% transfer fee for 15 months, after which the rate resets to 24.99%. Which of the following is the most critical factor she must evaluate before accepting the offer?

A. Whether the card offers a cash-back rewards program
B. Whether she can realistically pay off the $3,600 balance within 15 months before the high rate takes effect
C. Whether the card is accepted at her preferred grocery store
D. Whether the current card will forgive the remaining interest if she transfers

Questions 37–39 refer to the following supply chain scenario.

Cedar & Co. is a furniture retailer. It buys lumber from independent sawmills, has the furniture assembled at a single contract factory, ships finished goods to its regional warehouse, and sells through its own stores. A recent flood shut the contract factory for six weeks.

37. In Cedar & Co.'s supply chain, the contract factory that assembles the furniture is best described as

A. the end customer of the supply chain
B. an upstream production partner that supplies inputs before the product reaches Cedar's warehouse and stores
C. a downstream distributor that sells directly to consumers
D. a substitute product competing with Cedar's furniture

38. Which action would most directly reduce Cedar & Co.'s exposure to another single-factory shutdown?

A. Lowering retail prices across all of its stores
B. Increasing its national advertising budget
C. Consolidating all remaining assembly work into that one factory to gain efficiency
D. Qualifying a second contract factory in a different region so production can shift if one site goes down

39. Cedar & Co. decides to acquire the sawmill that supplies its lumber. This move is best described as

A. horizontal integration with a direct competitor
B. backward (upstream) vertical integration – acquiring a supplier of its inputs
C. forward (downstream) vertical integration – acquiring a distributor
D. diversification into an unrelated industry

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40. Mateo deposits $2,000 into a savings account that pays 5% interest, compounded annually. He makes no further deposits or withdrawals. Which of the following best explains why the account earns more interest in the second year than in the first?

A. In year two, interest is earned on both the original $2,000 and the interest added in year one
B. The bank automatically raises the interest rate each year the account stays open
C. Simple interest always grows faster than compound interest after the first year
D. The principal is reduced each year by the amount of interest earned

Questions 41–42 refer to the following investing scenario.

Indira, age 27, has just accepted her first full-time job with a $72,000 salary. She has no existing retirement savings. She opens a Roth IRA and contributes $400 per month.

41. If Indira contributes $400 per month starting at age 27 and earns an average annual return of 7%, the most important reason she benefits from starting now rather than waiting until age 37 is

A. contribution limits are lower for investors over age 35
B. the extra 10 years of compounding dramatically increases the balance at retirement – each dollar invested at 27 compounds for 10 more years than a dollar invested at 37
C. the IRS charges penalties for late starters who begin contributing after age 30
D. investment returns are guaranteed to be higher for younger investors

42. Indira allocates her Roth IRA across a total-stock-market index fund, an international stock fund, and a bond index fund. This diversification primarily reduces

A. unsystematic (firm- or sector-specific) risk that can be reduced by holding many different assets
B. systematic (market-wide) risk that affects all investments equally
C. inflation risk on cash deposits
D. the risk of paying any income tax on withdrawals

Questions 43–45 refer to the following income statement.

The partial income statement below covers the fiscal year ended December 31 for Holloway Home Goods, owned by Ariella.

Line Item	Amount
Revenue	$310,000
Cost of Goods Sold	$124,000
Gross Profit	?
Operating Expenses	$97,000
Operating Income	?
Interest Expense	$6,500
Income Tax Expense	$11,200
Net Income	?

43. What is Holloway Home Goods' gross profit for the year?

A. $89,000
B. $213,000
C. $186,000
D. $310,000

44. What is Holloway Home Goods' net income for the year?

A. $82,500
B. $71,300
C. $89,000
D. $186,000

45. Holloway Home Goods' gross margin (gross profit divided by revenue) is closest to

A. 29%
B. 40%
C. 60%
D. 72%

Questions 46–48 refer to the following balance sheet excerpt.

Selected balance sheet data for Beatriz's catering business, Mesa Grande Events, as of December 31:

Item	Amount
Cash	$14,500
Accounts Receivable	$9,800
Inventory (food + supplies)	$22,000
Equipment (net)	$76,000
Accounts Payable	$18,400
Short-term Line of Credit	$12,000
Long-term Equipment Loan	$44,000

46. What are Mesa Grande Events' total assets?

A. $122,300
B. $74,400
C. $46,300
D. $130,500

47. What is Mesa Grande Events' owner's equity?

A. $44,000
B. $74,400
C. $47,900
D. $122,300

48. Mesa Grande Events' current ratio (current assets divided by current liabilities) is closest to

A. 0.66
B. 1.5
C. 1.9
D. 3.5

Questions 49–51 refer to the following KPI and cash flow dashboard.

The dashboard below shows two years of results for Fernwood Candle Co., a direct-to-consumer candle brand owned by Daniela.

KPI	Year 1	Year 2
Revenue	$780,000	$1,040,000
Net Income	$62,400	$52,000
Operating Cash Flow	$71,000	$28,000
Customer Acquisition Cost (CAC)	$21	$34
Customer Lifetime Value (CLV)	$168	$155

49. Which statement is most directly supported by the dashboard?

A. Revenue and net income both grew in Year 2.
B. Revenue grew in Year 2, but net income and operating cash flow both declined.
C. Customer acquisition became cheaper in Year 2.
D. CLV-to-CAC ratio improved in Year 2.

50. Fernwood Candle Co.'s CLV-to-CAC ratio in Year 2 is closest to

A. 2.2
B. 7.4
C. 4.6
D. 8.0

51. Based on the dashboard alone, which concern should Daniela investigate most urgently?

A. Why operating cash flow fell from $71,000 to $28,000 despite a $260,000 revenue increase – a pattern that may signal collections problems, rising inventory, or cost-structure issues
B. Why the company has never paid a stock dividend
C. Whether to acquire a competing candle brand in a different geographic region
D. Whether to relocate the fulfillment warehouse to reduce shipping distances

Questions 52–55 refer to the following saving and borrowing scenario.

Priya, age 22, has just started her first full-time job. She has $4,000 sitting in a checking account that pays no interest. Her bank offers the following products.

Product	Rate	Key Terms
High-yield savings account	4.25% APY	No fees; withdraw anytime
24-month CD	4.75% APY	Early withdrawal forfeits 180 days of interest
Rewards credit card	26.99% APR	2% cash back on all purchases
Personal loan	12.5% APR	$4,000 borrowed; fixed $133.81 payment for 36 months

52. If Priya moves $3,000 from checking into the high-yield savings account and leaves it there for one year, approximately how much interest will it earn at 4.25% APY?

A. $4.25
B. $42.50
C. $128
D. $1,275

53. Priya wants the $3,000 to serve as her emergency fund. Which of the following best explains why the high-yield savings account is a better home for it than the 24-month CD, despite the CD's higher APY?

A. The savings account's rate is guaranteed to rise above the CD's rate over time.
B. An emergency fund must stay accessible, and an early CD withdrawal would forfeit 180 days of interest.
C. CDs are not insured, while savings accounts are.
D. The CD requires a monthly deposit that Priya cannot afford.

54. Priya charges $1,200 of purchases to the rewards card to earn the 2% cash back ($24), but she cannot pay the statement in full and carries the $1,200 balance for one month. Which statement best evaluates the outcome?

A. The month's interest – about $27 at 26.99% APR – exceeds the $24 cash back, so carrying the balance wipes out the reward.
B. The cash back always exceeds the interest charged on a rewards card.
C. Carrying a balance raises her credit score, which outweighs the interest cost.
D. No interest accrues, because cash-back cards waive interest on rewarded purchases.

55. If Priya takes the personal loan and makes all 36 monthly payments of $133.81, the approximate total interest cost of borrowing the $4,000 is

A. $817
B. $500
C. $1,500
D. $134

Questions 56–58 refer to the following strategy scenario.

Harborview Brewing is a craft brewery with taproom operations and regional distribution to 140 retail accounts across four states. The founder is using SWOT analysis and Porter's Five Forces to plan the next two years.

Harborview Brewing SWOT	
Strengths	Award-winning flagship IPA, strong taproom community following, in-house canning line
Weaknesses	Limited distribution reach beyond the four-state region, high cost per barrel vs. large regional breweries
Opportunities	Growing demand for low-alcohol and non-alcoholic craft beer, regional restaurant partnerships
Threats	Three new craft breweries opened within 10 miles in the past year, aluminum can prices rising 12%

56. The threat "three new craft breweries opened within 10 miles" is best classified under Porter's Five Forces as

A. bargaining power of buyers
B. bargaining power of suppliers
C. threat of substitutes
D. threat of new entrants

57. Which strategy most directly uses one of Harborview's strengths to capture an identified opportunity?

A. Outsource the canning line to reduce costs
B. Use the taproom's community following to launch and test a new low-alcohol line before expanding distribution
C. Discontinue the flagship IPA because the low-alcohol market is growing
D. Cancel all taproom events to focus on wholesale distribution

58. Rising aluminum can prices are best interpreted in this analysis as

A. a strength, because Harborview already owns a canning line
B. a weakness driven by internal cost structure
C. a threat arising from supplier-side conditions that increases Harborview's cost of goods
D. an opportunity to raise retail prices on all products

Questions 59–60 refer to the following placement and promotion scenario.

Naomi runs a direct-to-consumer baked-goods subscription called FreshCrumb. She currently sells only through her own website (direct channel). She is considering adding two new channels: (1) a regional grocery chain with 18 locations and (2) a third-party gift-box subscription platform that takes a 28% revenue share.

59. Adding the regional grocery chain as a channel is best described as which type of distribution strategy?

A. Exclusive distribution – selling through only one channel
B. Intensive distribution – placing products in as many outlets as possible regardless of margin
C. Selective distribution – choosing a limited number of retail partners that align with brand and reach goals
D. Direct-to-consumer distribution – selling without any retail intermediary

60. The third-party gift-box platform takes a 28% revenue share. Which of the following considerations best explains why Naomi should carefully evaluate this channel before committing?

A. Third-party platforms always reduce product quality.
B. Third-party platforms guarantee higher total revenue regardless of margin share.
C. Selling through a third-party platform is illegal for food businesses in most states.
D. The 28% revenue share may significantly reduce or eliminate FreshCrumb's margin unless volume is sufficient to offset the lower per-unit contribution – and the platform controls the customer relationship, limiting Naomi's ability to build brand loyalty directly.

Section I: Answer Key and Explanations

1. (A) Tomás is the sole owner with no separate legal entity, and profits and losses flow to his personal tax return – the defining traits of a sole proprietorship. (D) would require LLC registration; (B) requires incorporation; (C) requires two or more owners.

2. (B) Sole proprietors have unlimited personal liability – all business debts and legal claims can reach Tomás's personal assets. (A) is wrong because sole proprietors are taxed once on personal returns, not twice. (C) is wrong because sole proprietors can deduct business losses.

3. (D) In a general partnership, both partners share unlimited joint and several liability for all business obligations. (A) is wrong because general partnerships are pass-through entities, not corporations. (C) is the feature of a limited partnership, not a general one.

4. (C) An LLC provides limited personal liability – shielding Tomás's personal assets – while a single-member LLC is taxed as a pass-through (disregarded entity) by default. (A) is false; state tax treatment varies. (B) requires a public company structure.

5. (D) A municipal ordinance is a Political/Legal factor – it is a government regulation imposed on the business. (C) would apply if the regulation were about technology standards.

6. (C) Falling consumer confidence and rising layoffs signal reduced discretionary spending – handmade pottery is a discretionary purchase, making sales more vulnerable. (A) relates to supplier/input costs, not consumer sentiment. (D) applies to Development 1, not 2.

7. (C) Rising search interest in handmade pottery (Development 3) identifies a growing audience, and the platform's upgraded seller tools (Development 4) make online selling faster and cheaper – together they point to expanding online presence on that platform. (A) and (D) are overreactions not supported by the data.

8. (D) Development 4 (the platform's new AI-assisted listing and shipping software) and Development 5 (glaze-firing technology reducing energy use) are both Technological. Development 3 is Social (consumer behavior/interest shift). Development 1 is Political/Legal.

9. (A) Selling 30 boxes before committing to fixed costs is a classic lean hypothesis test – Beatriz is gathering desirability evidence before scaling. (B) is wrong because 30 units is not a maximizing launch. (C) and (D) do not describe what she is doing.

10. (A) A 73% (22/30) renewal rate shows that customers value the product enough to pay again – direct evidence of desirability. (C) would be evidenced by her ability to source and pack reliably. (B) would require cost-vs-revenue analysis.

11. (A) Spending $38 to fulfill a box she charges $29 for means every sale loses $9 – a fundamental viability problem. (C) is a positive word-of-mouth signal. (B) is strongly positive. (D) is a minor logistical inquiry, not a red flag.

12. (D) Vision states the long-term aspirational outcome; mission describes what the company does and for whom in the present. (A) reverses the definitions. (C) is false for both types. (B) is incorrect – the two serve distinct purposes.

13. (D) SMART = Specific (pairs), Measurable (140 to 196), Achievable (40% growth), Relevant (core business), Time-bound (end of Q4). The other options use incorrect expansions of the acronym.

14. (C) 175 / 196 = 0.8929, which rounds to 89%. (B) 82% would be 161/196. (D) 93% would be approximately 182/196.

15. (A) Accepting gifts above the $25 policy limit in exchange for awarding above-market contracts is a textbook conflict of interest and likely constitutes commercial bribery – both a policy violation and a legal risk. (B) is false; the policy explicitly prohibits it. (C) normalizes an ethics violation.

16. (B) GreenPath's shareholders lose returns because contract costs are inflated; employees bear the risk of cost overruns; customers may face higher prices. The harm is systemic, not just to Omar. (A) misidentifies who bears the cost. (C) is backwards – ValueSeal profits, not loses.

17. (D) Reporting through internal ethics or whistleblower channels is the professionally correct first step – it preserves documentation, follows due process, and protects Omar. (A) is passive noncompliance. (B) creates a separate ethical problem. (C) bypasses internal process and could expose Omar to legal risk.

18. (D) Committed Athletes generate $19.99/month on average – the highest of any active segment. (A) is $9.99; (C) is $14.99; (B) is $0.

19. (C) A 6% push-notification open rate means 94% of messages will go unread, making a push-notification campaign to Churned users extremely inefficient. (A) is false – there is no legal prohibition. (D) is incorrect; Churned is 17% of the user base – the smallest segment, not the largest. (B) is false; Churned generates $0 revenue per user, the lowest of any segment.

20. (C) Committed Athletes have both the highest sessions per week (5.8) and the highest revenue per user ($19.99), making them the most efficient premium loyalty target. (A) has low session frequency and low revenue. (B) is mid-range on both metrics.

21. (A) Comparing Casual Starters who upgraded to Committed Athletes against those who did not reveals the behavioral or usage patterns that predict upgrade – cohort analysis is the right research tool. (C), (B), and (D) do not address user behavior patterns.

22. (B) Receiving a gift (a resident's thank-you card) before being asked creates a sense of obligation – the defining trigger for reciprocity. (D) would be if the donor liked the person asking, not a gift mechanism.

23. (C) Citing the number of other supporters who have donated uses consensus (social proof) – people are more likely to act when they see that many others have already done so. (A) would require asking donors to make a first commitment before the ask.

24. (A) A 48-hour deadline on the matching grant limits the availability of the opportunity – that is scarcity. The matching component also activates (B) to some degree, but scarcity is the additional, distinct principle combined with urgency. The question asks what is combined with urgency: the limited-time matching window is a scarcity of the matching opportunity.

25. (B) 69% of 500 = 345 unaware shoppers. 52% of 345 = 179.4, which rounds to 179. (A) 130 = 52% of 250, using the wrong base. (D) 260 uses the full 500 as the base incorrectly.

26. (D) High satisfaction (78% would recommend) combined with low awareness (69% have never heard of the brand) means the product quality is strong but reach is the bottleneck – directly supporting Ariella's interpretation. (A) shows good conversion from awareness to trial, not the bottleneck. (C) suggests potential but doesn't establish the bottleneck.

27. (A) The bottleneck is awareness, so the solution is awareness-building channels – social media, earned media, sampling – not price reduction (which targets the conversion step, not awareness). (C) ignores the strong satisfaction and purchase data. (B) addresses conversion among the aware, not the larger unaware group.

28. (C) Contribution margin per unit = $12.99 – $4.20 = $8.79. Monthly contribution margin = $8.79 x 900 = $7,911.

29. (D) Option 1: $8.79 x 900 = $7,911. Option 2: ($16.99 – $4.20) x 680 = $12.79 x 680 = $8,697.20. Option 3: ($10.49 – $4.20) x 1,250 = $6.29 x 1,250 = $7,862.50. Option 2 produces the highest contribution margin.

30. (D) Penetration pricing can lock in a low-price anchor in customers' minds, making future price increases psychologically difficult. (A) is a possible perception issue but is not a definitive market outcome. (B) is false – no such federal regulation exists. (C) is incorrect; lower prices typically increase, not decrease, volume.

31. (B) 50% of $3,480 = $1,740 for needs. (A) is 20%; (C) is 30%; (D) is not a valid 50/30/20 percentage.

32. (B) The 50% needs target = $1,740. Sasha spends $2,088 on needs. $2,088 – $1,740 = $348 over target. (A) is wrong because $2,088 != $1,740. (D) is double the actual gap.

33. (D) 3% of $58,000 = $1,740 (Sasha's annual contribution). Employer matches another $1,740. Total = $3,480 per year. (A) is just Sasha's contribution alone. (B) uses 4.5%. (C) uses 7.5%.

34. (D) Monthly periodic rate = 21.99% / 12 = 1.8325%. $3,600 x 0.018325 = $65.97, approximately $66. (C) $99 would correspond to a monthly rate of about 2.75%, overstated. (B) is the annual interest, not monthly.

35. (A) The credit card APR (21.99%) is more than three times the student loan APR (6.8%), so each extra dollar of payment reduces interest costs faster when applied to the credit card. (B) is false – private student loans can be prepaid. (C) is false for personal credit cards. (D) is a common misconception; highest rate, not highest balance, should drive priority.

36. (B) The critical risk with a 0% promotional transfer is that if the balance is not fully paid off before the 15-month window closes, the new rate (24.99%) applies – potentially worse than the original card. (A) and (C) are irrelevant to this decision. (D) is not how credit cards work.

37. (B) The contract factory assembles inputs before the goods reach Cedar's warehouse and stores, so it sits upstream in the supply chain. (A) the end customer is downstream; (C) a distributor is downstream; (D) a substitute is a competing product, not a link in Cedar's chain.

38. (D) Qualifying a second factory in another region gives Cedar an alternate production site if one goes down – directly reducing single-source disruption risk. (A) price and (B) advertising do nothing for supply resilience; (C) concentrates risk further into one site.

39. (B) Acquiring a supplier of your inputs (the sawmill) is backward, or upstream, vertical integration. (A) horizontal integration is buying a competitor; (C) forward integration is acquiring a distributor; (D) unrelated diversification is entering a different industry.

40. (A) With annual compounding, the year-one interest ($2,000 x 5% = $100) is added to the principal, so year two earns 5% on $2,100 – $105 instead of $100. Interest earning interest is the definition of compound growth. (B) invents an automatic rate escalator; (C) reverses the relationship – compound interest outpaces simple interest over time; (D) describes paying down a loan, not a savings balance.

41. (B) Compounding means each dollar earns returns that themselves earn returns. Ten more years of compounding at 7% roughly doubles the ending balance compared to starting at 37. (A) is false – contribution limits are not tied to age in this way (age 50+ catch-up provisions exist, but that benefits older investors, not younger). (C) is false. (D) is false – returns are not guaranteed.

42. (A) Diversification across multiple assets and asset classes reduces unsystematic (firm- or sector-specific) risk – the risk that any one company or sector underperforms. Systematic (market-wide) risk cannot be diversified away. (C) and (D) describe different risk concepts.

43. (C) Gross profit = Revenue – COGS = $310,000 – $124,000 = $186,000. (A) is operating income before taxes; (B) is incorrect; (D) is just revenue.

44. (B) Operating income = $186,000 – $97,000 = $89,000. Net income = $89,000 – $6,500 – $11,200 = $71,300. (A) omits income tax expense; (C) is operating income, not net income.

45. (C) Gross margin = $186,000 / $310,000 = 60%. (A) 29% is operating income / revenue ($89,000 / $310,000); (B) 40% is COGS / revenue; (D) 72% is overstated.

46. (A) Total assets = Cash + AR + Inventory + Equipment = $14,500 + $9,800 + $22,000 + $76,000 = $122,300. (C) $46,300 sums only the current assets (omits equipment); (B) $74,400 is total liabilities, not assets; (D) adds incorrectly.

47. (C) Total liabilities = $18,400 + $12,000 + $44,000 = $74,400. Owner's equity = Assets – Liabilities = $122,300 – $74,400 = $47,900. (B) is total liabilities, not equity; (A) is long-term debt alone; (D) is total assets.

48. (B) Current assets = $14,500 + $9,800 + $22,000 = $46,300. Current liabilities = $18,400 + $12,000 = $30,400. Current ratio = $46,300 / $30,400 = 1.52, closest to (B) 1.5. (C) 1.9 overstates the ratio; (D) 3.5 would require far more current assets relative to current liabilities.

49. (B) Revenue grew from $780,000 to $1,040,000 (+33%), but net income fell from $62,400 to $52,000 and operating cash flow fell from $71,000 to $28,000 – a clear divergence. (A) is wrong because net income fell. (C) is wrong because CAC rose from $21 to $34. (D) is wrong because CLV/CAC worsened.

50. (C) CLV/CAC in Year 2 = $155 / $34 = 4.56, closest to (C) 4.6. (A) 2.2 would be $155 / $70; (B) 7.4 mixes Year-2 CLV with Year-1 CAC ($155 / $21); (D) 8.0 is the Year-1 ratio ($168 / $21).

51. (A) Operating cash flow dropped by $43,000 (from $71,000 to $28,000) while revenue grew by $260,000 – a sharp divergence that signals possible working-capital problems, inventory buildup, or uncollected receivables. This is the highest-priority diagnostic concern. (B), (C), and (D) are not supported by the dashboard data.

52. (C) $3,000 x 0.0425 = $127.50, approximately $128 in the first year. (B) misplaces the decimal; (A) and (D) are off by even larger factors.

53. (B) Liquidity is the defining requirement of an emergency fund, and the CD's 180-days-of-interest penalty punishes exactly the kind of unplanned withdrawal an emergency creates. (A) is speculation – neither rate is guaranteed to move; (C) is false – both products are insured at FDIC-member banks; (D) invents a term that does not exist.

54. (A) One month's interest = $1,200 x (26.99% / 12) = $1,200 x 2.249% = about $27, which is more than the $24 cash back – the reward is erased and then some. Rewards only pay off when the statement balance is paid in full each month. (B) and (D) are false; (C) is backwards – carrying a balance raises utilization, which tends to lower a score, and the interest cost is real regardless.

55. (A) Total payments = $133.81 x 36 = $4,817.16. Interest = $4,817.16 – $4,000.00 = about $817. (B) is 12.5% of $4,000 for a single year with no principal paydown; (C) extends that same error across all three years; (D) is a single monthly payment.

56. (D) New breweries entering the local market is the textbook example of the "threat of new entrants" in Porter's Five Forces – barriers to entry in craft brewing are relatively low. (A) would involve buyers pressuring for lower prices. (C) would involve non-beer alternatives (e.g., hard cider, cocktails). (B) would involve aluminum suppliers.

57. (B) The taproom's community following (a strength) provides a built-in audience to test and validate a new low-alcohol line (an opportunity) before committing to large-scale distribution – a classic SO (strength-opportunity) strategy. (A) eliminates a strength. (C) abandons the core product. (D) reduces the strength.

58. (C) Rising aluminum prices are driven by commodity markets and supplier-side conditions outside Harborview's control – a threat that increases input costs. (A) is incorrect because owning a canning line doesn't insulate against rising material costs. (B) is wrong because it is an external, not internal, driver. (D) is speculative and not directly supported.

59. (C) Adding a limited number of carefully selected retail partners – a regional chain with 18 locations that aligns with the brand – is selective distribution. (A) exclusive distribution uses only one channel. (B) intensive distribution places product in as many outlets as possible. (D) is the current arrangement she is moving away from.

60. (D) A 28% revenue share substantially compresses margin per unit; if volume on the platform is insufficient to generate enough total contribution, the channel destroys value rather than creating it. Additionally, the platform controls the customer relationship, preventing FreshCrumb from building direct brand loyalty. (A) is false – platforms do not alter product quality. (C) is false. (B) is false – revenue share can make a channel unprofitable regardless of volume.

Section II Part A: Free Response – Business Canvas Project Exam-Day Validation

1 Question | 25 Minutes | 15% of Exam Score

Throughout the course, you completed a Business Canvas Project in which you developed a product or service idea, identified a target customer, articulated a value proposition, and tested at least one hypothesis with real evidence. Use **your own** Business Canvas Project to answer the following sub-parts. Write in complete sentences. Cite specific details from your own project – do not invent a generic example.

(a) In 2–3 sentences, pitch the product or service idea from your Business Canvas Project. State clearly what it is, who it is for, and what makes it meaningfully different from existing alternatives.

(b) Identify the specific target customer for your offering. Name at least one observable characteristic of that customer (age range, role, behavior, or context) and describe the specific problem your offering solves. Avoid phrases like "everyone" or "people who want something better."

(c) Describe **one** hypothesis you tested during the project. Write it as a testable if/then claim or a "we believe that…" statement. Identify the method you used to test it (interview, survey, prototype, landing page, etc.) and the type of evidence you collected.

(d) Explain what the evidence from part (c) revealed. Did it confirm your original plan, cause you to change a decision, or lead you to test a new hypothesis? Be specific: cite at least one data point, observation, or quote from your evidence and explain how it drove your conclusion.

(e) Identify **one** viability challenge your business idea faces – a real question about unit economics, customer acquisition cost, regulatory compliance cost, supplier dependency, or financial sustainability. Explain clearly why this is a viability concern rather than a desirability or feasibility concern.

(f) Reflect on your project through the three lenses of innovation: desirability (do customers want it?), feasibility (can it be built and delivered?), and viability (can the business sustain itself?). Identify **which lens has the strongest evidence** in your project and **which has the weakest**. Justify each with specific reference to your own project evidence, and propose one concrete next step to close the weaker lens.

Scoring Guideline – FRQ 1 (Total: 10 points)

Because each student's Business Canvas Project is unique, this rubric awards points for evidence quality and reasoning, not for matching a single correct answer. Each row is worth 0 or 1 point (10 rows = 10 points).

Sub-part	1 point – earns	0 points – does not earn	Brief example (earns / does not earn)
(a)	Names a specific product/service AND at least one distinguishing feature relative to alternatives.	Generic category only, or no distinguishing feature.	Earns: "a reusable insulated lunch bag with a built-in freezer panel." Does not: "a food product."
(b)	Names a specific target customer with at least one observable trait AND the specific problem solved.	"Everyone," or no specific problem.	Earns: "commuting nurses who need meals to stay cold through a 12-hour shift." Does not: "anyone who eats lunch."
(c)	States the hypothesis as a testable claim (if/then or "we believe that…" form).	No testable claim, or an untestable goal.	Earns: "If we price at $15, at least 6 of 8 interviewees pre-order." Does not: "People will like it."

Sub-part	1 point – earns	0 points – does not earn	Brief example (earns / does not earn)
(c)	Names the test method AND identifies the type of evidence collected.	Method or evidence missing.	Earns: “8 interviews; 6 of 8 said they’d pay over $15.” Does not: “We asked around.”
(d)	Cites at least one specific data point, observation, or quote from the evidence.	No specific evidence cited.	Earns: “6 of 8 named price as the barrier.” Does not: “People had opinions.”
(d)	States whether the evidence confirmed, changed, or replaced the decision AND explains why.	Outcome or reasoning missing.	Earns: “Because 2 of 8 balked at $18, we cut the price to $15.” Does not: “We decided to.”
(e)	Names a specific viability challenge (cost, margin, CAC, or sustainability).	Generic risk like “competition.”	Earns: “$9 CAC exceeds our $6 gross margin per unit.” Does not: “Not enough customers.”
(e)	Correctly identifies the issue as viability, not desirability or feasibility.	Miscategorizes the issue.	Earns: “This is viability – the unit economics don’t work yet.” Does not: labels a demand question as viability.
(f)	Identifies the strongest and weakest lens with reasoning grounded in project evidence.	Abstract definitions, no project evidence.	Earns: “Desirability strongest (6/8 pre-orders); viability weakest (negative margin).”
(f)	Proposes a specific, actionable next step that would strengthen the weaker lens.	Vague (e.g., “do more research”).	Earns: “Negotiate a bulk input price to test whether margin turns positive.” Does not: “research more.”

Section II Part B: Free Response

3 Questions | 65 Minutes | 25% of Exam Score Combined

FRQ 2 – Personal Finance

Omar is 30 years old, married, and works as a licensed electrician in Denver. His annual gross salary is $74,400. His monthly gross pay is $6,200 and his monthly take-home pay (after federal income tax, Colorado state income tax, Social Security, Medicare, an employer-sponsored health insurance premium of $180, and a 4% 401(k) contribution) is $4,335. His employer matches 100% of the first 4% of his gross pay contributed to the 401(k).

Omar's monthly expenses are summarized below.

Category	Type	Amount
Rent (2-bedroom apartment)	Fixed need	$1,620
Utilities + internet	Fixed need	$155
Groceries	Variable need	$510
Transportation (truck payment + insurance + fuel)	Mixed need	$640
Dining out + entertainment	Variable want	$350
Clothing + personal goods	Variable want	$120
Streaming + subscriptions	Variable want	$65
Emergency fund deposit	Savings	$100
Down-payment savings (high-yield account)	Savings	$175
Credit card minimum payment	Debt service	$95
Student loan payment (Omar's trade school loan)	Debt service	$210

Omar's additional financial picture:

- **Credit card balance:** $4,800 at 22.49% APR; current minimum is $95.
- **Trade school loan balance:** $9,600 at 5.25% APR; $210 monthly payment.
- **Emergency fund balance:** $3,100 in a high-yield savings account at 4.5% APY.
- **Down-payment savings balance:** $8,400 in the same account.
- **Retirement:** 401(k) currently has $18,200 invested in a target-date 2055 fund.
- **Goal #1:** Build an emergency fund equal to 4 months of essential expenses within 20 months.
- **Goal #2:** Pay off the credit card balance within 18 months.

- **Goal #3:** Accumulate a $40,000 down payment within 5 years (60 months).

Omar has come to you, a financial planner, for guidance regarding his financial situation. Respond to parts A, B, and C.

(A) Using data from the scenario, identify a difference between Omar's total monthly needs spending and the amount the 50/30/20 guideline would allocate to needs from his take-home pay.

(B) Describe a financial challenge or opportunity indicated in the scenario that is currently impacting Omar's ability to achieve his financial goals.

(C) Explain how a specific action taken by Omar could help him achieve one of his financial goals.

Scoring Guideline – FRQ 2 (Total: 3 points)

Each part is worth 1 point. As on the official exam, this rubric lists examples that earn the point; any response that meets the criterion earns credit.

(A) – 1 point. Examples that earn this point include:

- Omar's needs spending is $2,925 (rent $1,620 + utilities $155 + groceries $510 + transport $640), while the 50% needs target is 0.50 × $4,335 = $2,167.50 – a difference of $757.50.
- His needs exceed the 50/30/20 needs allocation by $757.50.
- Needs consume about 67% of take-home pay versus the 50% guideline.

Does not earn: restating one figure with no comparison (e.g., "His rent is $1,620").

(B) – 1 point. Examples that earn this point include:

- The $4,800 credit card balance at 22.49% APR is high-cost debt that drains his budget and slows progress toward his goals.
- Needs consume roughly 67% of take-home pay, leaving little room to fund the emergency fund, save for a down payment, and repay debt at once.
- Opportunity: he already captures the full 4% employer 401(k) match, so his retirement contributions earn "free" employer dollars.

Does not earn: a general statement with no link to his goals (e.g., "He should budget better").

(C) – 1 point. Examples that earn this point include:

- Directing the $295 unallocated cash plus the $95 minimum ($390/month) to the credit card pays off the $4,800 balance in about 13 months – within the 18-month Goal #2 window – and eliminates 22.49% interest.
- Contributing about $330 more per month toward the emergency fund reaches the $11,700 four-month target in 20 months (Goal #1): 4 × $2,925 = $11,700, and ($11,700 – $3,100) / 20 = $430/month total, or $330 above his current $100 deposit.
- Keeping the 401(k) at 4% still captures the full match, so redirecting spare cash to the highest-APR debt maximizes net benefit.

Does not earn: naming an action with no link to a goal or no reasoning (e.g., "He should save more").

FRQ 3 – Business Concept Application

Clearbrook Bakehouse is a regional wholesale bakery that supplies fresh bread and pastry products to 34 grocery and café accounts across two states. The operations director, Talia, has gathered the following evidence to inform the next strategic planning cycle. She has not yet decided what actions to take – her task is to understand what the data shows.

Account performance data (last 12 months):

Account Type	Number of Accounts	Avg. Weekly Order Value	90-day Repeat Rate	Avg. Delivery Distance (miles)
Independent cafés	18	$1,240	91%	14
Regional grocery chains	8	$4,820	100%	38
Single-location grocery stores	8	$2,110	75%	22

Operational KPI dashboard (last 12 months):

KPI	Value
Average order fulfillment rate (% of orders delivered on time and complete)	94%
Ingredient cost as % of revenue	41%
Labor cost as % of revenue	33%
Spoilage rate (% of production lost to unsold/expired product)	4.2%
Capacity utilization (% of maximum baking capacity used)	88%
Number of accounts that requested a new SKU in last 6 months	11

Customer feedback (collected from 28 of 34 accounts via quarterly survey):

Metric	Result
Overall satisfaction score (1–10)	8.1
Most-cited strength	“Consistency and reliability” (67%)

Metric	Result
Most-cited concern	“Limited variety – we’d order more if there were more SKUs” (43%)
% who said they would increase weekly order volume if Clearbrook added a gluten-free line	54%
% who said on-time delivery was their top purchasing criterion	71%

Respond to parts A, B, and C.

(A) Describe a market research method Talia employed to gather the information represented in the scenario.

(B) Describe a finding revealed by the research.

(C) Explain how Clearbrook Bakehouse could use a finding from the research to achieve a business goal.

Scoring Guideline – FRQ 3 (Total: 3 points)

Each part is worth 1 point. This rubric lists examples that earn the point.

(A) – 1 point. Examples that earn this point include:

- Talia collected primary-source feedback through a quarterly customer survey of 28 of 34 accounts.
- Clearbrook analyzed internal operational data (account-performance records and a 12-month KPI dashboard).
- They gathered account-level order and repeat-rate data to assess performance by account type.

Does not earn: naming a finding instead of a method (e.g., “Satisfaction was 8.1”).

(B) – 1 point. Examples that earn this point include:

- Regional grocery chains generate the highest average weekly order value at $4,820, well above independent cafés ($1,240) and single-location stores ($2,110).
- Single-location grocery stores have the lowest 90-day repeat rate at 75%.
- 43% of surveyed accounts cite limited variety, and 54% would increase volume if a gluten-free line were added.

Does not earn: a vague claim with no data (e.g., “Accounts want more products”).

(C) – 1 point. Examples that earn this point include:

- Clearbrook can use the finding that 54% of accounts would order more with a gluten-free line to develop that line and grow order volume and revenue.
- It can use the finding that 71% rank on-time delivery as their top criterion to prioritize fulfillment reliability and retain accounts.
- It can use the concentration of revenue in 8 regional grocery accounts ($4,820 each) to protect those relationships and reduce dependency risk.

Does not earn: restating a finding without linking it to a business goal or action.

FRQ 4 – Business Decision

*Holloway Home Goods is a regional home-decor retailer with 5 physical stores and a direct-to-consumer e-commerce channel. Annual revenue is $9.6 million and current operating margin is 7%. The owner, Ariella, must choose between **two** capital investment options for the coming fiscal year. The board will commit to only one.*

Option 1: Open a flagship store in a high-traffic urban market.

- Capital required: $1,200,000 (build-out, fixtures, inventory, staff hiring, opening events)
- Expected first-year revenue from new store: $1,800,000
- Expected first-year operating margin on new store revenue: 5% (below chain average due to higher urban lease costs and ramp-up)
- Expected payback period: 5 years
- Nonfinancial considerations: the urban market has strong foot traffic and a target demographic with high disposable income; a national home-goods competitor opened in the same neighborhood 8 months ago; commercial lease term is 10 years with limited early exit provisions; Ariella has two experienced store managers willing to lead the opening.

Option 2: Invest in a private-label product line manufactured under a Holloway Home Goods brand.

- Capital required: $1,200,000 (product development, supplier contracts, inventory, photography, marketing)
- Expected first-year incremental revenue from private-label line: $2,100,000 (sold across existing stores and e-commerce)
- Expected first-year operating margin on private-label incremental revenue: 13% (higher than average because margins on owned-brand products are greater than resale)
- Expected payback period: 2.5 years
- Nonfinancial considerations: private-label differentiates Holloway from competitors who sell identical national brands; requires sourcing and quality-control capability Holloway does not currently have; the product development cycle means first revenue is 9 months away; 61% of surveyed customers said they “would be excited to buy a Holloway-branded product.”

Respond to Parts A, B, and C.

(A) Holloway Home Goods, like all businesses, is affected by internal, market, and external factors that affect its ability to achieve its goals.

- **i.** Describe an internal, a market, or an external factor indicated in the scenario that affects Holloway Home Goods.
- **ii.** Explain how the factor you selected in part A(i) creates an opportunity or a problem for Holloway Home Goods.

(B) Several financial and nonfinancial criteria can be used to compare Option 1 and Option 2.

- **i.** Using expected first-year operating profit contribution as a criterion, describe a difference or similarity between the two options. Include specific evidence related to each option.
- **ii.** Using one additional financial criterion relevant to the decision, describe a difference or similarity between the two options. Include specific evidence related to each option.
- **iii.** Using one nonfinancial criterion relevant to the decision, describe a difference or similarity between the two options. Include specific evidence related to each option.

(C) Recommend a course of action for Holloway Home Goods. In your response you should:

- Recommend one of the two options.
- Explain why you recommend that option.
- Support your recommendation using any three specific criteria (financial and/or nonfinancial), including evidence from the scenario related to each criterion.

Scoring Guideline – FRQ 4 (Total: 8 points)

Rows 1–6 are worth 0 or 1 point each; Row 7 is graduated (0, 1, or 2 points). Total = 8 points.

Row	0 points – does not earn	1 point – earns	Brief example (earns / does not earn)
1 · A(i) – Factor	No factor, a factor not in the scenario, or one that is not internal/market/external.	Describes an internal, market, or external factor from the scenario that affects the business.	Earns: "A national home-goods competitor opened in the target neighborhood 8 months ago." Does not: "Holloway has a decision to make."
2 · A(ii) – Opportunity/ Problem	No or incomplete explanation linking the factor to an opportunity or a problem.	Explains how the A(i) factor creates an opportunity or a problem.	Earns: "The nearby competitor makes Option 1 riskier because it splits foot traffic." Does not: "Competition is bad."
3 · B(i) – Operating profit contribution	No comparison, wrong criterion, or no per-option evidence.	Compares the two options using first-year operating profit contribution with specific evidence for each.	Earns: "Option 2 = $273,000 vs. Option 1 = $90,000." Does not: "Option 2 is more profitable."
4 · B(ii) – Additional financial criterion	No comparison, a nonfinancial criterion, or no per-option evidence.	Compares the two options using a second financial criterion with evidence for each.	Earns: "Payback is 2.5 years for Option 2 vs. 5 years for Option 1." Does not: "Option 2 pays back faster."
5 · B(iii) – Nonfinancial criterion	No comparison, a financial criterion, or no per-option evidence.	Compares the two options using a nonfinancial criterion with evidence for each.	Earns: "Option 2 needs sourcing/QC capability Holloway lacks; Option 1 has two experienced managers ready to lead." Does not: "Option 1 is safer."
6 · C – Recommendation	No recommendation, no reasoning, or a choice outside the two options.	Recommends one option and explains why.	Earns: "Choose Option 2 because it earns more profit sooner with no 10-year lease." Does not: "Both options have trade-offs."

Row	0 points – does not earn	1 point – earns	Brief example (earns / does not earn)
7 · C – Evidence (0–2)	No evidence, or only one criterion with evidence → 0.	Two criteria with evidence → 1 point; three criteria with evidence → 2 points.	2 pts: "Option 2 earns $273,000 vs. $90,000, pays back in 2.5 vs. 5 years, and 61% of customers said they'd buy a Holloway-branded product."

Row 7 is graduated: 0 points = one or no criteria supported with evidence; 1 point = two criteria with scenario evidence; 2 points = three criteria with scenario evidence. Calculations: Option 1 = $1,800,000 × 5% = $90,000; Option 2 = $2,100,000 × 13% = $273,000 (Option 2 higher by $183,000).

Scoring Summary

Section	Component	Raw Points	Time	Weight
I	Multiple Choice (60 questions)	60	70 min	60%
II A	FRQ 1 – Business Canvas Validation	10	25 min	15%
II B	FRQ 2 – Personal Finance (Omar)	3	~12–13 min	part of 25%
II B	FRQ 3 – Business Concept Application (Clearbrook Bakehouse)	3	~12–13 min	part of 25%
II B	FRQ 4 – Business Decision (Holloway Home Goods)	8	~40 min	part of 25%
	Section II total	**24**	**90 min**	**40%**

FRQ point totals: FRQ 1 = 10 | FRQ 2 = 3 | FRQ 3 = 3 | FRQ 4 = 8 | **Section II = 24 raw points.** FRQ 1 is weighted 15% of the exam; Part B (FRQ 2–4) is weighted 25%.

A note on score conversions: AP composite-to-1-to-5 conversions for AP Business with Personal Finance had not been published when this companion went to press. Use this paper to gauge mastery – count points earned out of total available, identify weak units, and revisit those chapters. Do not treat any third-party score band as official.