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Public Corporation

MCQs with short discussion

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CBISC

Contents

Reasons for Public Ownership — Multiple-choice questions with answers and brief discussion

Question 1

Which reason for public ownership aims to prevent wasteful duplication of facilities and services?

A. To save jobs
B. To avoid duplication
C. To maintain strategic control
D. To provide subsidies

Answer: B. To avoid duplication.
Discussion: Public ownership can coordinate provision so one efficient supplier serves the whole market, avoiding repeated investments by competing firms.

Question 2

Why might a government own a business to protect national interests and security?

A. To increase short-term revenue
B. To maintain control of strategic industries
C. To encourage foreign ownership
D. To reduce regulation

Answer: B. To maintain control of strategic industries.
Discussion: Governments keep ownership in sectors like defense, energy, or utilities to safeguard national security and economic independence.

Question 3

Which motive describes public ownership when the private sector fails to supply a socially necessary good or service?

A. To fill gaps left by the private sector
B. To promote market competition
C. To enable deregulation
D. To privatise natural monopolies

Answer: A. To fill gaps left by the private sector.
Discussion: Governments may run services that are unprofitable but socially important, such as rural transport or basic research.

Question 4

Providing essential services to all citizens regardless of profitability is a reason for public ownership called:

A. Subsidy provision
B. Universal access and provision
C. Political interference
D. Shareholder accountability

Answer: B. Universal access and provision.
Discussion: Public ownership ensures basic services (water, healthcare, education) remain available to everyone, not just profitable customers.

Question 5

How does public ownership sometimes help during economic downturns?

A. By immediately increasing market competition
B. By saving jobs and preventing sudden unemployment
C. By eliminating government spending
D. By encouraging asset sales

Answer: B. By saving jobs and preventing sudden unemployment.
Discussion: Governments may keep firms running to protect employment and social stability, especially in regions dependent on a large employer.

Question 6

Which vocabulary term best describes a market where a single firm can supply the whole market more efficiently than multiple firms?

A. Subsidy
B. Duplication
C. Natural monopoly
D. Privatisation

Answer: C. Natural monopoly.
Discussion: A natural monopoly arises when high fixed costs or infrastructure make one provider the most efficient option, often justifying public ownership or regulation.

Question 7

What is a "subsidy" in the context of public ownership?

A. A legal barrier preventing entry
B. Financial support from the government to keep prices low or services running
C. The sale of state assets to private owners
D. Deregulation of a market

Answer: B. Financial support from the government to keep prices low or services running.
Discussion: Subsidies help maintain services that are socially desirable but not financially viable at market prices.

Question 8

Which outcome is a likely advantage of public ownership for essential utilities?

A. Guaranteed higher profits than private firms
B. Coordinated investment and long-term planning for public interest
C. Immediate elimination of inefficiency without management change
D. Complete freedom from political influence

Answer: B. Coordinated investment and long-term planning for public interest.
Discussion: Public ownership allows alignment of investment with social goals rather than short-term profit motives.

Question 9

If a private market would produce duplicate rail lines that harm overall efficiency, the government is most likely to choose:

A. Deregulation to invite more firms
B. Public ownership to prevent duplication
C. Immediate privatisation of the rail system
D. Selling assets to foreign investors

Answer: B. Public ownership to prevent duplication.
Discussion: Central control prevents inefficient overlapping infrastructure and can reduce total costs for society.

Question 10

A potential disadvantage of public ownership not listed as a reason for it is:

A. Reduced political interference
B. Lack of profit incentives leading to inefficiency
C. Ensuring universal service provision
D. Preventing wasteful duplication

Answer: B. Lack of profit incentives leading to inefficiency.
Discussion: While public ownership has social benefits, critics argue it may suffer from weak incentives, bureaucratic management, and slow innovation.

Reasons Against Public Ownership and Public Corporations — MCQs with answers and discussion

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Question 1

Which of the following is a direct financial drawback of public ownership mentioned in the text?

A. Higher shareholder returns
B. Losses met by taxpayers
C. Increased foreign investment
D. Reduced government borrowing

Answer: B. Losses met by taxpayers
Discussion: Many public corporations run at a loss and require taxpayer subsidies, placing a burden on public finances and diverting funds from other services.

Question 2

A common argument that public corporations are less efficient is mainly based on:

A. High levels of market competition
B. Staff lacking motivation due to absence of bankruptcy risk
C. Excessive profit incentives for managers
D. Rapid innovation driven by private investors

Answer: B. Staff lacking motivation due to absence of bankruptcy risk
Discussion: Lack of competition and job security can reduce incentives for staff to perform efficiently, encouraging complacency and weak performance.

Question 3

Political interference in public corporations can result in:

A. Firms making purely profit-driven decisions
B. Governments using firms to meet political goals such as changing prices
C. Complete operational independence from government
D. Reduced public accountability

Answer: B. Governments using firms to meet political goals such as changing prices
Discussion: Government control allows political decisions (for revenue, employment, or policy) to shape firm actions, potentially undermining economic efficiency.

Question 4

Why might taxpayers object to continuing subsidies for a loss-making public corporation?

A. Because subsidies always increase market efficiency
B. Because subsidies divert funds from other vital public services
C. Because subsidies guarantee lower prices forever
D. Because subsidies eliminate the need for regulation

Answer: B. Because subsidies divert funds from other vital public services
Discussion: Money used to subsidize public corporations could instead fund healthcare, defence, or education, so persistent losses provoke public concern.

Question 5

Which management challenge is highlighted for very large public corporations like national health services?

A. Easy coordination across operations
B. Managing a dispersed workforce and vast assets efficiently
C. Having too few employees to run services
D. Simple asset tracking and small geographical spread

Answer: B. Managing a dispersed workforce and vast assets efficiently
Discussion: Large scale and geographic spread make coordination, consistent standards, and efficient management difficult for public corporations.

Question 6

An example given to illustrate the cost problem of public ownership is:

A. A profitable rail company in 2019
B. SNCF posting a loss of €216 million in 2015
C. A telecom firm making record profits in 2015
D. A private firm receiving government subsidies

Answer: B. SNCF posting a loss of €216 million in 2015
Discussion: The SNCF loss shows how public enterprises can generate significant deficits that taxpayers must cover, highlighting fiscal risk.

Question 7

Which outcome is most likely if a public corporation faces frequent political directives?

A. Greater operational autonomy and faster decision-making
B. Decisions driven by short-term political aims rather than long-term efficiency
C. Immediate increase in private investment incentives
D. Elimination of all service obligations to the public

Answer: B. Decisions driven by short-term political aims rather than long-term efficiency
Discussion: Political interference can shift priorities toward immediate policy needs, compromising investment planning and efficiency.

Question 8

Which of the following is NOT presented as a reason against public ownership in the excerpt?

A. Difficulty coordinating large organisations
B. Cost to government from persistent losses
C. Increased innovation through competition
D. Inefficiency due to lack of performance incentives

Answer: C. Increased innovation through competition
Discussion: The excerpt lists coordination problems, fiscal cost, and inefficiency as drawbacks; increased innovation is not claimed as a disadvantage of public ownership.

Question 9

What is a likely consequence if a large public corporation is poorly coordinated across regions?

A. Uniform service quality nationwide
B. Operational inefficiencies and inconsistent outcomes
C. Immediate reduction in government oversight
D. Automatic privatization of the inefficient sections

Answer: B. Operational inefficiencies and inconsistent outcomes
Discussion: Poor coordination across a broad workforce and many assets leads to variance in service delivery and higher administrative costs.

Question 10

Which policy implication follows from the problems listed for public corporations?

A. No need for performance monitoring or accountability
B. Consideration of alternative ownership models or stronger governance and regulation
C. Immediate increase in politically driven price controls
D. Complete withdrawal of government from all services regardless of consequences

Answer: B. Consideration of alternative ownership models or stronger governance and regulation
Discussion: Persistent losses, inefficiency, political interference, and management difficulties suggest either reforming governance, improving regulation, granting operational independence, or considering privatization where appropriate.

Privatization — Multiple-choice questions with answers and discussion

Question 1

Which of the following best describes the "sale of public corporations" as a method of privatization?

A. Government removes legal barriers so private firms can enter a market.
B. Government sells shares or entire firms to private owners.
C. Government hires private firms to run specific public services.
D. Government transfers public land to local councils.

Answer: B. Government sells shares or entire firms to private owners.
Discussion: The sale of public corporations transfers ownership from the state to private investors by selling shares or whole enterprises, often converting state-owned firms into publicly listed companies or private businesses.

Question 2

Which real-world example from the late 1990s illustrates the sale of public corporation shares to private investors?

A. UK opening its electricity market to competition
B. Australian sale of Telstra shares in 1997
C. Eastern European countries joining the EU
D. Council houses being rented to tenants at discounted rates

Answer: B. Australian sale of Telstra shares in 1997.
Discussion: The Australian government sold shares in Telstra in 1997 as part of broader privatization, turning a formerly state-owned telecom into a partly private company.

Question 3

Deregulation as a privatization tool primarily involves:

A. Selling government land to tenants.
B. Replacing public managers with private contractors.
C. Removing legal restrictions so private firms can compete.
D. Nationalizing previously private firms.

Answer: C. Removing legal restrictions so private firms can compete.
Discussion: Deregulation reduces or removes laws and barriers that limited private entry, allowing competition in sectors once reserved for state monopolies (for example, opening telecoms or energy markets).

Question 4

"Contracting out" (outsourcing) means the government:

A. Sells its assets on the open market.
B. Grants private firms the legal right to be monopolies.
C. Contracts private businesses to provide services on its behalf.
D. Transfers land ownership to private developers.

Answer: C. Contracts private businesses to provide services on its behalf.
Discussion: Contracting out keeps ownership and overall responsibility with the government while paying private firms to deliver services such as refuse collection, medical services, or road maintenance.

Question 5

Which of these is an example of the sale of land and property as a privatization measure?

A. Introducing price caps in electricity markets
B. Selling council-owned houses to tenants at discounted prices
C. Outsourcing hospital administration to a private company
D. Allowing new private telecom operators to enter the market

Answer: B. Selling council-owned houses to tenants at discounted prices.
Discussion: Selling public housing to tenants transfers property from public ownership to private individuals, often promoted as a way to increase home ownership and reduce council responsibilities.

Question 6

A likely short-term effect of privatizing a natural monopoly (like local water provision) by sale of shares is:

A. Immediate and effective competition from many new firms.
B. Elimination of regulatory oversight.
C. Private ownership with the need for regulation to control prices and quality.
D. Government gains no revenue from the transaction.

Answer: C. Private ownership with the need for regulation to control prices and quality.
Discussion: Natural monopolies remain single-provider markets even after sale; hence regulators typically monitor pricing, service standards, and investment to protect consumers while allowing private ownership to operate.

Question 7

Which method of privatization is most directly intended to increase competition in previously state-dominated markets?

A. Sale of land and property
B. Contracting out
C. Deregulation
D. Employee share ownership plans

Answer: C. Deregulation.
Discussion: Deregulation removes legal restrictions that previously prevented private firms from entering an industry, enabling multiple firms to compete and fostering market contestability.

Question 8

A common criticism of rapid large-scale privatization (for example in Eastern Europe after state socialism) is that it can:

A. Always improve equity and reduce inequality.
B. Lead to asset concentration in a few hands and weak regulation.
C. Guarantee better universal service provision without oversight.
D. Immediately lower prices in all privatized sectors.

Answer: B. Lead to asset concentration in a few hands and weak regulation.
Discussion: Rapid privatization can create powerful private owners if sales are poorly designed; without strong regulatory frameworks and transparent processes, it risks concentration of wealth and reduced public accountability.

Question 9

Which combination of privatization policies would most directly reduce the role of the state while keeping service delivery uninterrupted?

A. Nationalization plus price controls
B. Contracting out plus strong regulatory contracts
C. Sale of land plus elimination of all regulation
D. Deregulation with immediate withdrawal of any standards

Answer: B. Contracting out plus strong regulatory contracts.
Discussion: Contracting out hands service provision to private firms but retains government oversight through contracts and regulation, preserving continuity while reducing direct public-sector provision.

Question 10

When a government wants to privatize a state-owned electricity generator but still ensure universal access and safety, the most important accompanying measure is:

A. Complete removal of all legal responsibilities from the new owner.
B. Strong regulation and clear licensing requirements.
C. Selling the firm only to foreign investors without conditions.
D. Immediate deregulation of retail tariffs with no oversight.

Answer: B. Strong regulation and clear licensing requirements.
Discussion: Privatization of essential utilities requires regulatory frameworks to enforce service standards, safety, investment obligations, and fair pricing to protect consumers and ensure system reliability.

Privatisation and Public Corporations — MCQs with answers and brief discussion

Question 1

Which motive for privatisation is directly linked to immediate government revenue?

A. Reduce political interference
B. Generate income
C. Improve service accountability
D. Encourage competition

Answer: B. Generate income.
Discussion: Selling state assets raises cash for the government, a clear short-term fiscal motive for privatisation.

Question 2

Which argument claims privatised firms are likely to become more efficient?

A. They will be subject to less market competition.
B. They will have to cut costs and return profits to shareholders.
C. They will receive larger government subsidies.
D. They will avoid regulatory oversight.

Answer: B. They will have to cut costs and return profits to shareholders.
Discussion: Private ownership introduces profit incentives and stronger accountability, encouraging cost-cutting and service improvements.

Question 3

Deregulation encourages privatisation mainly by:

A. Forcing governments to subsidise firms.
B. Removing legal barriers so new firms can enter the market.
C. Guaranteeing monopoly profits for incumbents.
D. Nationalising key industries.

Answer: B. Removing legal barriers so new firms can enter the market.
Discussion: Deregulation opens previously restricted markets, making privatisation practical and allowing competition to develop.

Question 4

One reason for moving public corporations out of direct government control is to:

A. Increase political use of firms for policy goals.
B. Reduce political interference in business decisions.
C. Prevent firms from making independent investment choices.
D. Eliminate private-sector accountability.

Answer: B. Reduce political interference in business decisions.
Discussion: Privatisation or independence limits the government's ability to direct prices, investment, or production for political purposes.

Question 5

Which outcome is a commonly claimed long-term benefit of privatisation?

A. Guaranteed lower prices without regulation
B. Improved efficiency and accountability
C. Permanent elimination of market failures
D. Universal service provision without oversight

Answer: B. Improved efficiency and accountability.
Discussion: Proponents argue private incentives and shareholder pressure drive efficiency and clearer performance accountability.

Question 6

Which statement best describes the relationship between deregulation and new entrants in a market?

A. Deregulation increases barriers to entry.
B. Deregulation removes legal barriers and encourages new firms to join.
C. Deregulation nationalises private firms.
D. Deregulation forces incumbents to remain state-owned.

Answer: B. Deregulation removes legal barriers and encourages new firms to join.
Discussion: Removing restrictions allows competition, which can accompany or follow privatisation of incumbents.

Question 7

If a government wants to prevent firms being used for short-term political purposes, the most fitting policy is:

A. Increase direct ministerial control over firms.
B. Keep firms entirely state-run with no independence.
C. Privatisation or granting firms operational independence.
D. Ban private ownership entirely.

Answer: C. Privatisation or granting firms operational independence.
Discussion: Reducing government control through privatisation or legal independence limits the ability to steer firms for political ends.

Question 8

Which of the following is NOT a reason mentioned for privatisation in the excerpt?

A. To generate income for the state
B. To reduce inefficiency in the public sector
C. To ensure universal free access to services
D. To reduce political interference

Answer: C. To ensure universal free access to services.
Discussion: The excerpt cites revenue, efficiency, deregulation, and reduced political interference; universal free access is not given as a privatisation motive.

Question 9

A possible risk if privatisation focuses only on short-term revenue generation is:

A. Strengthened long-term public welfare provisions
B. Sale of strategic assets at below-market value
C. Automatic improvement in regulatory frameworks
D. Guaranteed competition in natural monopolies

Answer: B. Sale of strategic assets at below-market value.
Discussion: Rushed sales to raise cash can undervalue assets and leave the public with weaker long-term control over essential services.

Question 10

Which pair correctly matches policy and its direct effect?

A. Deregulation — Increases legal barriers to entry
B. Sale of assets — Reduces immediate government income
C. Reduced political interference — Firms can set independent investment levels
D. Public ownership — Guarantees profit-driven efficiency

Answer: C. Reduced political interference — Firms can set independent investment levels.
Discussion: Limiting political control allows firms greater freedom over pricing, investment, and long-term strategy, while the other pairings are incorrect.