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Question 1

Question Type: MultipleChoice

Which of the following is most likely to be a reason why a supplier charges its customer higher price after it has reached the break-even point?

Options:

- A- Supplier may need to open new facilities to meet increasing customer's demand
- B- Supplier may have high fixed cost - variable cost ratio
- C- Supplier may want to encourage buyer's demand
- D- The supplier may have reached economy of scale

Answer:

A

Explanation:

'Supplier may want to encourage buyer's demand': the buyer tends to prefer lower price, if supplier wants to encourage its customers to buy more, it needs to offer discount at bulk amount. So this option is not acceptable.

'Supplier may have high fixed cost - variable cost ratio': Supplier with high fixed cost needs high volumes to break even, but once achieved, it may be able to offer significant discounts for bulk orders

'The supplier may have reached economy of scale': when economy of scale is reached, cost per unit will be minimal which often leads to more favourable price.

'Supplier may need to open new facilities to meet increasing customer's demand': Increasing customer's demands may exceed supplier's current capacity. Therefore, supplier may need to extend its capacity by investing more in facilities. To cover these fixed cost investment, supplier may charge higher price.

LO 2, AC 2.1

Question 2

Question Type: MultipleChoice

Which of the following will positively affect reputational strength of an organisation? Select TWO that apply.

Options:

- A- Adopting out-of-date technology
- B- Weak internal coordination
- C- Great gap between reputation and reality
- D- High ethical standards
- E- Strong customer focus

Answer:

D, E

Explanation:

In a globalised commercial world characterised by dynamic market and multiple companies competing for business, a positive corporate reputation can be an enormous asset. Reputational strength in one organisation might be based on some or all of the following characteristics:

- Quality of products or services
- Low cost/high value for money
- High ethical standards

- Reliability
- Cutting-edge technology
- Strong customer focus
- Engineering excellence

LO 1, AC 1.4

Question 3

Question Type: MultipleChoice

Which of the following are intangible values created by trust in business relationships? Select TWO that apply.

Options:

- A-** Higher revenues
- B-** Positive feedbacks from customers

C- More focus on core business

D- Increasing response time to request

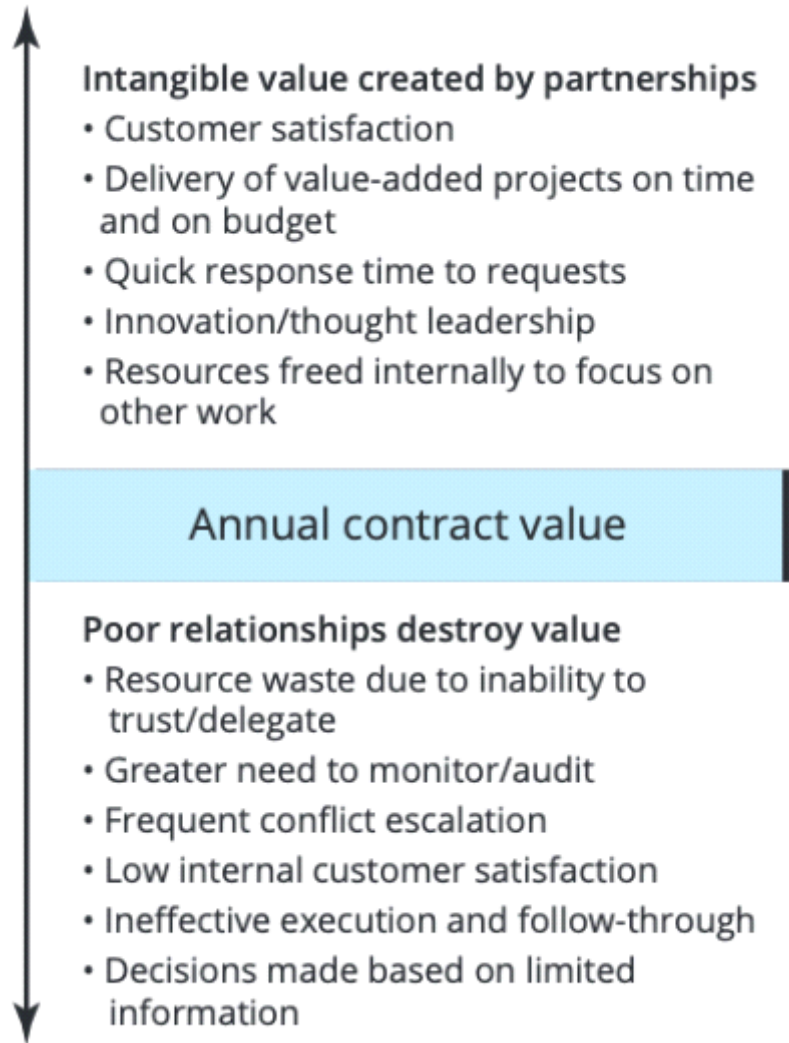
E- Frequent conflict escalation

Answer:

B, C

Explanation:

Trust may create value as following:



Question 4

Question Type: MultipleChoice

Which of the following are most likely to help buyer become preferred customer in supplier's perspective? Select TWO that apply.

Options:

- A- Onerous supplier terms and conditions
- B- Compliance with agreed repair lead time
- C- Shorter payment period
- D- Reduction in delivery errors
- E- Ensuring an increased number of repeat orders

Answer:

C, E

Explanation:

Becoming a preferred customer to supplier's perspective can increase the purchaser's leverage in negotiation. Beside the size of buying organisation or its spend, the following may be sufficient to differentiate the buyer from other buying organisations:

- Simple procurement processes
- Simple contracting processes
- Clear and concise documentation
- Absence of onerous supplier terms and conditions (onerous supplier terms and conditions mean that obligations imposed on suppliers are greater than their gains)
- On-time payment: The reduction in hassle for both supplier and the buyer, if bills are paid on time, is significant. From the customer's perspective it could also be the opener to agreeing preferential payment terms. A supplier may weigh up that payment on time at 60 days is worth taking, over the current 30-day terms that slip to 90 days and beyond.
- Transparent processes
- Ethical behavior

LO 1, AC 1.3

Question 5

Question Type: MultipleChoice

Which of the following will shift the supply curve to the right?

Options:

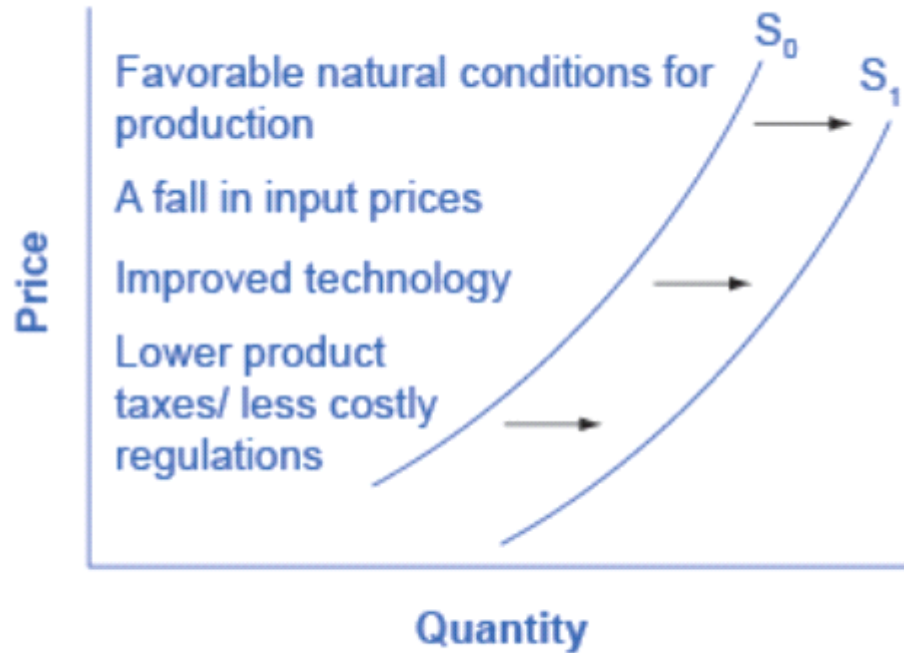
- A- Changes in customer taste
- B- New disruptive technology
- C- Decreased market price of substitute products
- D- Increased customers' disposable income

Answer:

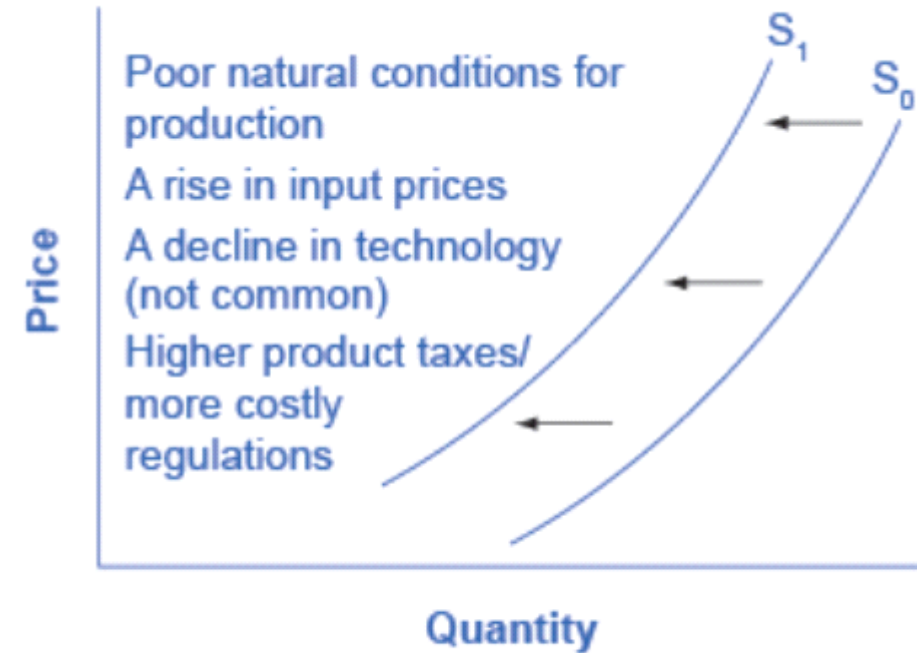
B

Explanation:

The following graph shows the factors that shift the supply curve to the left and to the right.



(a) Factors that increase supply



(b) Factors that decrease supply

- CIPS study guide page 103

- Principles of Microeconomics 2e, 2017, Open Stax - Rice University.

LO 2, AC 2.2

Question 6

Question Type: MultipleChoice

Which of the following are most likely to be characteristics of a perfectly competitive market? Select TWO that apply

Options:

- A-** In a competitive market, both buyers and sellers are price givers
- B-** Firms can freely enter or exit the market
- C-** In a perfectly competitive market, each seller has a large impact on the market price
- A perfectly competitive market consists of products that are all slightly different from one another
- D-** There are many buyers and sellers in the market

Answer:

B, D

Explanation:

A perfectly competitive market is one with the following features:

- There are many firms producing identical or very similar (homogeneous) goods or services
- There are no barriers to entry to the market or exit from the market - anyone can enter or leave easily
- Both producers and customers have perfect knowledge of the market place, prices, costs of production and influences on demand and supply

Under these conditions, the price and quantity will always tend toward equilibrium as any producer that sets a price above equilibrium will not sell anything at all, and any producer that sets a price below a equilibrium will obtain 100% market share in theory. The demand curve is perfectly elastic, which means that it will be horizontal. In a perfectly competitive market, it is difficult to increase profits through pricing, and suppliers instead must focus on their cost structure. As these conditions imply, there are few if any examples of perfectly competitive market.

LO 2, AC 2.2

Question 7

Question Type: MultipleChoice

End users are the only stakeholders that are involved in the preparation of a negotiation. Is this statement true?

Options:

- A- Yes, because end-users have greater expert power
- B- Yes, because only end-users understand their demand
- C- No, because end-users are external stakeholders
- D- No, because budget holders also play an important role

Answer:

D

Explanation:

Commercial negotiation objectives should be driven by the business needs of the organisation. Organisations are made up of different stakeholder groups, some of whom may have different, even conflicting objectives. From a negotiation perspective, stakeholders can be defined as persons or groups that have interest (or stake) in the outcome of the negotiation you are leading or participating in.

CIPS distinguishes between 3 sets of stakeholders:

- Internal stakeholders
- Connected stakeholders
- External stakeholders

End-users are examples of internal stakeholders. They are the people who will benefit from the purchase of a product or service. However, their interest may conflict with other groups, i.e. the budget controllers whose objective is minimising the expense. In negotiation perspective, procurement should involve different groups of stakeholder.

LO 1, AC 1.1

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