CIPS L3M3 Practice Questions

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Question 1

Question Type: MultipleChoice

Which one of the following is least likely to be a barrier to free trade?

Options:

A- Exchange controls
B- Subsidies for exporters and internal producers of products
C- Trading blocs
D- Embargoes

Answer:

C

Explanation:

Trading blocs eg EU, EFTA, ASEAN aim to free up trade within the bloc; the other answers offered will negatively affect free trade.

Question 2

Question Type: MultipleChoice

What is the term for a situation where a seller sets a high introductory price for a new product, to attract buyers who have a strong desire to get the product early, and who can afford it? The price then gets gradually reduced over time.

Options:

A- Price discrimination
B- Market skimming
C- Promotional pricing
D- Contribution pricing

Answer:

B

Explanation:

'Market skimming' is the correct answer.

An obvious example of this type of pricing behaviour is in the field of technology, where 'early adopters' will pay significantly more for a product, even although they know the price will drop subsequently. For commercially-used products, sometimes there is an urgent need for an organisa-tion to acquire - a topical example as I write (early 2022) is some new surveillance technology which is in the news and which some governments are desperate to have. In consumer markets, everyone's 'go-to' example is the next generation smartphone, especially Apple products.

Promotional pricing is a short-term price reduction (or 'two-4-one' type offer) to generate sales in the short-term, for example to clear stock, or because of a manufacturer financial support arrangement.

Price discrimination is where the seller sets different prices for different market segments. An ex-ample would be charging different rail fares in UK or mainland Europe based on customer age.

Contribution pricing is based on the notion that sales should cover costs, contributing to the busi-ness, without necessarily making a profit. For example, a large order may be accepted which will keep the workforce employed (retaining their skills as well as having a considerate / ethical outlook) to see the firm through a rough period.

Question 3

Question Type: MultipleChoice

Which of the following statements is untrue? Select two.

Options:

A- The framework arrangement establishes the basic terms and conditions that will apply to subsequent orders

B- A framework arrangement cannot be used for consultancy services, although it can be used for construction work.

C- There is an obligation to buy under a framework arrangement

D- In most cases, a framework arrangement is not itself a contract.

Answer:

B, C

Explanation:

There is no obligation to buy under a framework arrangement; and a framework can be used for consultancy services.

Question 4

Question Type: MultipleChoice

A sum of money credited to a buyer by a seller in recognition of a large volume of purchases bought throughout the previous year might be called a:

Options:

A- Retrospective rebate
B- Vendor debit
C- Historic refund
D- Retrospective reward

Answer:

A

Explanation:

It's a retrospective rebate, and can be a highly significant way of (often hidden) discounting for many businesses - sometimes a 'life-saver'. Something to think about in an open book costing situa-tion - are there rebates to suppliers which are 'forgotten' in discussions?

Question 5

Question Type: MultipleChoice

A common term for the win-lose style of negotiations is:

Options:

A- Illustrative
B- Diminutive
C- Destructive
D- Distributive

Answer:

D

Explanation:

Distributive: at the other end of the spectrum from 'collaborative'.

Question 6

Question Type: MultipleChoice

Assume you calculate a selling price by adding a profit element onto costs. Assume the profit ele-ment is equivalent to 100% of costs.

Is mark-up or margin being described here?

Options:

A- Margin
B- Don't know.
C- (Well take a guess then...)
D- Mark-up

Answer:

D

Explanation:

When price is discussed as a % of costs to be added on, the term is 'mark-up'.

Question 7

Question Type: MultipleChoice

Under a XXXX contract, the buyer does commit to purchase a given quantity over a given period of time, but the precise number of orders and their quantities is unknown at the start of the period. What expression has been replaced by XXXX?

Options:

A- Call-off
B- Framework
C- Oral
D- Term

Answer:

A

Explanation:

The fact that the time period and the total quantity is known means it is a 'call-off' contract. The volumes of product are 'called off' from the contract as required by the buying organisation.

Make sure you understand the difference between a call-off contract and a framework arrangement.

Under a framework arrangement, there is no obligation on the part of the buyer to use the goods / services specified.

Question 8

Question Type: MultipleChoice

Which option best are external factors in supplier decision-making? Choose two.

Options:

A- The selling firm's financial position
B- Market conditions, determining demand and supply
C- Customer perceptions of value
D- How badly the seller needs the business

Answer:

B, C

Explanation:

Market conditions, determining demand and supply, and customer perceptions of value are external factors. One could argue that customer perceptions of value can be altered by the selling company, but in the short-term this is clearly external.

Question 9

Question Type: MultipleChoice

Which of the following would not normally be part of data required by the buying organisation's contract manager?

Options:

A- Other customer data
B- Technical data
C- Financial data
D- Performance data

Answer:

A

Explanation:

Other customer data.

It would, I think, be very unusual for a contract manager to feel it appropriate to ask for information from a supplier representative about other customers. Business partners normally want their dealings to be private. However, in informal discussions, in the normal course of conversation, information is often transferred in a benign manner.

Question 10

Question Type: MultipleChoice

Based on Lysons and Farrington, two authors recommended by CIPS, Which option best are cost-based pricing models, as opposed to market-driven pricing models? Select two.

Options:

A- Penetration pricing
B- Promotional pricing
C- Marginal pricing
D- Rate of return pricing

Answer:

C, D

Explanation:

Both penetration pricing and promotional pricing begin with the market price. Marginal pricing and rate of return pricing both look at the costs of doing something, and base their calculations on cost. These last two are therefore cost-based approaches to pricing.

Question 11

Question Type: MultipleChoice

Tolerate, transfer, terminate or ...?

Options:

A- Take

B- Try
C- Test
D- Treat

Answer:

D

Explanation:

This is about risk, and the answer is 'treat'.

Risk management strategies can be classified into 'the 4 T's', which you need to know for your ex-am.

Treating the risk is essentially seeking to minimise the likelihood or impact of the risk. An example might be to carefully monitor key suppliers' ongoing financial performance to minimise the likeli-hood of their going into liquidation during the course of a contract with us. Etc.

Question 12

Question Type: MultipleChoice

Which STEEPLE factor deals with issues of foreign exchange rates, inflation, consumer spending, labour costs and unemployment levels?

Options:

A- Economic
B- Political
C- Socio-cultural
D- Environmental

Answer:

A

Explanation:

Economic.

I think foreign exchange at least couldn't fit into any other STEEPLE factor, so that's a clincher and it has to be 'economic'.

Question 13

Question Type: MultipleChoice

Which one of the following is from the STEEPLE framework?

Options:

A- Socio-economic
B- Socio-pathic
C- Socio-cultural
D- Socio-logical
E- Socio-technical

Answer:

C

Explanation:

Socio-cultural. The only 'S' in the framework.