CIPS L5M2 Practice Questions

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Question 1

Question Type: MultipleChoice

Controlling a risk through the development of actions that can minimise the impact the organisation will suffer as a result of the risk event is known as what control?

Options:

A- tolerate
B- treat
C- transfer
D- terminate

Answer:

B

Explanation:

This is the description of treat mentioned on p. 143. The 4 Ts is a popular exam topic

Question 2

Question Type: MultipleChoice

Which of the following is an example of force majeure?

Options:

A- The supplier delivers materials late due to a breakdown
B- The supplier asks for an uplift in prices
C- The supplier is under criminal investigation for fraud
D- The supplier's factory is hit by a hurricane

Answer:

D

Explanation:

The hurricane is the force majeure event. Natural disasters such as this, or any events outside of the parties' control could be considered force majeure. This is a popular exam topic - see p. 66 in the study guide

Question 3

Question Type: MultipleChoice

Leo LLP is a company which sources materials internationally, and then sells these on nationally at a small margin. Leo LLP has noted that there is a risk of exchange rate fluctuations making their purchases unviable. The CFO has declared that the only way to mitigate this risk is via hedging and that they should look at price fixing. is this correct?

Options:

A- yes- hedging is the only solution to mitigate the risk of adverse price movements
B- yes- this reduces the risk to 0
C- no- Leo LLP could do nothing and increase its prices instead
D- no- Leo LLP can take out insurance to mitigate this risk

Answer:

C

Explanation:

The correct answer is 3 'no Leo LLP could do nothing and increase its prices instead'. Firstly the CFO is wrong. There are other ways to mitigate this risk than hedging- hedging isn't the ONLY thing you can do. Therefore you automatically need to discount options that begin with yes. Then looking at the options that begin with no, insurance isn't going to help in this situtation. Therefore, by process of elimination you will be left with 'no Leo LLP could do nothing and increase its prices instead'.

This question is taken from p.95 - there is a section here describing alternatives to hedging. When dealing with currency fluctuations, an alternative to fixing a price is to build in a margin on your own prices. This margin acts as a buffer for if prices go up- your price can remain the same. Other alternatives to hedging suggested by CIPS include; negotiating long term contracts, buying out the supplier and ingredient substitution

Question 4

Question Type: MultipleChoice

Which of the following is an International Standard for Risk Management?

Options:

A- ISO 22301
B- ISO 27000
C- ISO28000
D- ISO31000

Answer:

D

Explanation:

Risk Management = ISO31000. Learn the ISOs for the exam as it's a popular exam topic. 31000 is explained on p. 140. As well as the numbers, you should also learn the guiding principles of each ISO for the exam.

Question 5

Question Type: MultipleChoice

Which of the following will you put into box 8?

Options:

A- service credits
B- NDA
C- Conformance Specification
D- Force Majeure

Answer:
A

Explanation:

The correct answers are as follows:

	Issue	Contract Clause
Risk 1	Intellectual Property	NDA
Risk 2	Environmental	Force Majeure
Risk 3	Strategic	Conformance Specification
Risk 4	Operational	Service Credits

Service Credits are commonly used in IT contracts. This is where the customer is compensated financially should the system 'go down' for a period.

Question 6

Question Type: MultipleChoice

Which organisation created the Decent Work Agenda?

Options:
A- UN
B- ISO
C- ILO
D- ETI

Answer:
C

Explanation:

This is from ILO- the International Labour Organisation - see p.49 of the textbook. You should recognise all four of these acronyms as they come up in this module UN= United Nations - they have the Guiding Principles, ISO = produce standards for business practices and ETI = Ethical Trading Initiative - they have a base code for labour practices.

Question 7

Question Type: MultipleChoice

Which of the following will you put into box 2?

Options:

A- transfer
B- treat
C- tolerate
D- terminate

Answer:

B

Explanation:

The correct answers are as follows:

	Action	Remedy
Risk 1	Transfer	Force Majeure
Risk 2	Treat	Standardised Payment Terms
Risk 3	Terminate	CSR Policy
Risk 4	Tolerate	Quote in Buyer's Currency

Cashflow issues can lead to serious financial problems and the company going bust. Therefore this risk must be treated.