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# Question 1

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**Question Type:** MultipleChoice

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Under EU public procurement directives, which of the following are procedures in which there is no commercial negotiation allowed?

## Options:

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- A- Innovation Partnerships
- B- Open Procedure
- C- Restricted Procedure
- D- Competitive Dialogue
- E- Competitive Procedure with Negotiation

## Answer:

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B, C

## Explanation:

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Under the European Union public procurement directives, all public sector bodies must abide by certain rules when they procure goods and services over a threshold value. These rules are codified under 5 procurement procedures:

1. Open Procedure
2. Restricted Procedure
3. Competitive Dialogue
4. Competitive Procedure with Negotiation
5. Innovation Partnerships.

Under normal circumstances, there is no commercial negotiation allowed under the two most commonly used procedure, Open and Restricted. Under these procedures, the prices and terms and conditions of contract should be decided via reference only to the tenderers' responses to the buyer's requests for tenders, and not through 'post-tender negotiation'. Under the other procedure, negotiation within the rules is permitted. Interested learners can read more about these procedures here.

LO 1, AC 1.1

## Question 2

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**Question Type:** MultipleChoice

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A public agency opens a tendering process for a road building project that lasts approximately 1 year. They post their requirements on public journal and receive some interests. After conducting due diligence process and selecting the lowest bidder, the project commences. However, the supplier complains that price of material increases because of a shortage of supply, then they demands an 5% uptick in contract value. The agency investigates the increment and sees that there is indeed a fluctuation in prices of supplier's input. They are likely to accept the proposal, but they are also concerned that supplier may demand more. To avoid making another concession with the supplier, which of the following should be a priority action of the agency?

### **Options:**

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- A-** Disapprove supplier's demands until they finish the project
- B-** Seek approval from higher authority
- C-** Document a contract variation that only allows another concession if some specific conditions arise
- D-** Postpone the decision making until the budget is ready

### **Answer:**

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C

### **Explanation:**

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The agency (buyer) has made a concession about the price. Possibly the supplier will request another concession (the salami tactics). To avoid this to be happened, the agency should only allow a concession as an exception, make sure that the concession is

documented and only permitted against some exceptional circumstances, and seek agreement to this from the supplier.

LO 3, AC 3.2

## Question 3

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**Question Type:** MultipleChoice

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In a detailed cost breakdown, a company has a salary cost of 9%, raw materials cost 51% and overheads cost 24%. Which of the following represents the mark-up of that company?

### Options:

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- A- Approximately 84%
- B- Approximately 19%
- C- Approximately 116%
- D- Approximately 16%

### Answer:

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B

**Explanation:**

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Mark-up is the amount added to the cost of an item to get to its selling price and is expressed as a percentage.

$$\text{Mark-up (\%)} = (\text{Price} - \text{Cost}) / \text{Cost} \times 100$$

$$= (100 - 9 - 51 - 24) / (9 + 51 + 24) \times 100 = 16 / 84 \times 100 = 19.04\%$$

LO 2, AC 2.1

## Question 4

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**Question Type:** MultipleChoice

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In addition to organisational power, personal power of each negotiator can influence the outcomes of a negotiation. A good negotiator can leverage different sources of power. Is this statement true?

**Options:**

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- A- Yes, because the good negotiator recognises his own power in a negotiation
- B- No, because each person has only one superior source of personal power
- C- Yes, because all sources of power have similar effectiveness in every situation
- D- No, because only organisational power can be leveraged during a negotiation

**Answer:**

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A

**Explanation:**

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Both organisational and personal power have the ability to influence the outcomes of negotiation. Good negotiators recognises the different sources of relative personal power they possess in a negotiation. There is no one superior source of personal power; they will vary in their effectiveness based on the situation. The more personal sources available the better, even if some not used, these can be used as a fallback.

LO 1, AC 1.3

## Question 5

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**Question Type:** MultipleChoice

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Which of the following are most likely to be fixed costs of an airline? Select TWO that apply.

**Options:**

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- A- Purchase of aircraft
- B- Catering services
- C- Advertising and promotion
- D- Flight crew training
- E- Fuel

**Answer:**

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A, D

**Explanation:**

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Fixed costs (FC) are costs that do not vary with volume. To an airline once aircraft are purchased, flight crews trained and departures scheduled, costs are disproportionately fixed.

Variable costs (VC) are those which vary with the amount produced. Fuel, catering services and marketing are examples of variable.

LO 2, AC 2.1



## Question 6

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**Question Type:** MultipleChoice

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A buying organisation with a low spend but the reputation for paying on-time. In order to increase buyer's leverage in negotiation with suppliers, which of the following should be a priority of this buyer?

### Options:

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- A- Unclear tender award criteria
- B- Volume separation
- C- Spend concentration
- D- Unavailable technical support

### Answer:

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C

### Explanation:

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According to Paul Steele's 'The Seller's Perspective', customer can be classified into 4 categories as below:

To increase the leverage in negotiation, buyer may increase its attractiveness and/or increase spend value. In this scenario, the buyer is already attractive to supplier as it always pays on-time, but the spend is still low. So to have greater leverage, the buyer has to increase its spend volume by spend concentration. Spend concentration may take many forms as following:

- Vendor base reduction
- Volume pooling
- Volume redistribution
- Volume consolidation across categories
- Standardisation and harmonisation of specifications
- Forming purchasing consortia

## The Seller's Perspective

Customers who do not spend much but have enough attraction to make them worth pursuing. You would hope that your care and attention would prove rewarding.

Customers who spend little and are not at all attractive. Why are you doing business with them?



Customers of the highest quality who should be protected under any circumstances. You would not wish one of these to escape.

Customers who are not particularly attractive but who spend so much money that a great deal of profit and turnover can be created. You can negotiate hard and try to earn some money.

## Question 7

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**Question Type:** MultipleChoice

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Which of the following are most likely to harm trust between buyer and supplier in a commercial relationship? Select TWO that apply.

### Options:

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- A- Avoidance of submitting important documentations
- B- Reduced response time during contract performance
- C- Resolving some conditions that would otherwise have them competing for resources
- D- Subjective assessment of performance
- E- Exploring a disagreement to learn from each other's insights

### Answer:

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A, D

### Explanation:

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Trust-destroying behaviours:

- Rumours of partnership or relationship breaking down
- Emotion-based assessment of performance
- Avoiding accountability, passing the blame to others
- General mood -- resentment, distrust, frustration, etc

LO 1, AC 1.4

## Question 8

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**Question Type:** MultipleChoice

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An oil refinery plant imports much of its crude oil from overseas. A procurement manager in the refinery suggests that fixing the crude oil contract price for 36 months would be beneficial for the company. Would this be a right thing to do?

### Options:

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- A-** Yes, financial budgeting task would be a lot easier with fixed pricing arrangement
- B-** No, fixed price should be only applied to contracts that last 60 months or longer

**C-** No, the refinery would not be able to reap the benefits from falling commodity price and currency rates

**D-** Yes, the supplier would bear the risk when the material price increased

**Answer:**

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C

**Explanation:**

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Fixed price contract is the contract in which the price is static throughout the contract period. A fixed-price contract may give certainty to budget and simplify contract management. However, it may lead to other problems since it requires bidders to estimate and bear the financial risks associated with price escalations. If the estimates are too high or events do not materialize, the buyer will pay a steep price that may affect the economy and efficiency of the contract. In the worst case, it may mean that the bid price is then above budget and may lead to a reduction in the requirements or rebidding. If the estimates are too low, it may appear as an abnormally low bid and disrupt contract execution.

On the other hand, price adjustment provisions include formulas designed to address problems, and can protect both the borrower and contractors from price fluctuations. Price adjustment formulas allow contractors to offer more realistic prices at the time of bidding. Despite concerns that they may lead to budget uncertainties, price adjustment formulas will estimate the actual cost implications that will be encountered. They use indexes that can be used for cost projection.

According to Asia Development Bank (ADB), any contract with a delivery or completion period beyond 18 months should contain an appropriate price adjustment clause.

In the scenario, the crude oil contract is planned to last 36 months. This period is pretty long with a fluctuating commodity. Therefore, the company should use price adjustment agreement.

- CIPS study guide page 113-117

- Guidance Note on Procurement: Price Adjustment (adb.org)

LO 2, AC 2.2

## Question 9

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**Question Type:** MultipleChoice

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When is the best time to adopt accommodating style according to Thomas-Kilmann conflict mode instrument?

### Options:

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- A-** When both buyer and supplier want to find an integrative solution as their concerns are too important to be compromised
- B-** When buyer needs to gather more information to gain more advantages in later negotiations
- C-** When preserving harmony and avoiding disruption with supplier are especially important

**D-** When buyer and supplier have equal power but are strongly committed to mutually exclusive goals

**Answer:**

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C

**Explanation:**

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According to Thomas-Kilmann conflict model instrument, there are 5 conflict management styles:

Accommodating is an unassertive and cooperative approach to resolving the conflict. Accommodating means conceding to the other party with little debate or fight, not challenging or strongly putting forward your own point of view and generally giving and yielding to the other party's point of view. Accommodating is best used when:

1. When others can resolve the conflict more effectively
2. When the issue is much more important to the other person than to yourself - to satisfy the needs of others and to show you are reasonable
3. To build up social credit for later issues which are important to you
4. When continued competition would only damage your cause
5. When preserving harmony and avoiding disruption are especially important
6. To aid in the managerial development of subordinates by allowing them to experiment and learn from their own mistakes

LO 1, AC 1.1



## Question 10

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**Question Type:** MultipleChoice

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During a negotiation, the supplier requests for payment term shortened to 45 days from 60 days. Seeing that this proposal lies within the concession plan, the procurement manager asks for 5% discount in return. Is that right thing to do?

### Options:

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- A-** Yes, the procurement manager should keep that 5% for himself because that amount is a fair compensation for his effort
- B-** No, it is unethical to exploit the weakness of the other party
- C-** No, procurement should insist the payment term remains 60 days
- D-** Yes, since procurement manager has his own cost savings target to achieve and he should make use of supplier's financial status

### Answer:

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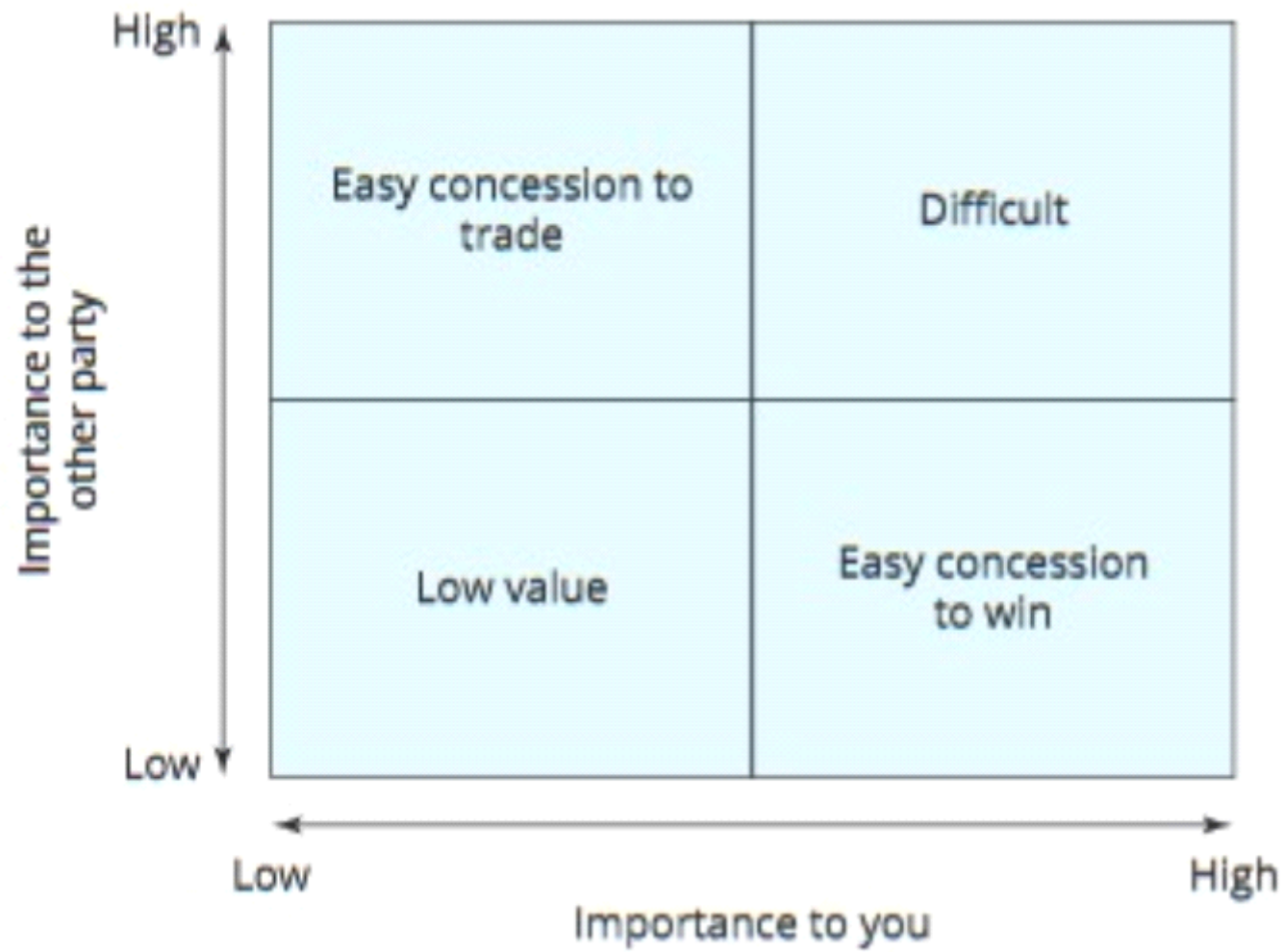
D

### Explanation:

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When preparing for a negotiation, negotiator should establish a list of tradeables and a concession plan. Good negotiators never give anything away that has not already been planned as part of the bargaining mix in the concession planning stage.

In the above scenario, the procurement manager has planned his own concession, so he can trade with supplier. The answer should be 'Yes, since procurement manager has his own cost savings target to achieve and he should make use of supplier's financial status'



LO 2, AC 2.3

## Question 11

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**Question Type:** MultipleChoice

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If the value of the British Pound in other currencies is strong, which of the following is most likely to occur?

### Options:

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- A- The price of UK products in the UK will rise
- B- The price of UK products in the UK will fall
- C- The price of UK products abroad in foreign currency will fall
- D- The price of UK products abroad in foreign currency will rise

### Answer:

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D

### Explanation:

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Currency exchange rates are determined by macroeconomic factors and demand and supply. In general, countries with stable political and economic systems, a growing economy and a strong rule of law will have stronger and more stable currency than those without these characteristics. In this question, the British Pound is stronger than other currency, which means that buyers who import goods from the UK have to pay higher in their own currencies.

LO 2, AC 2.2

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