



**Free Questions for L5M2 by dumpssheet**

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# Question 1

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**Question Type:** MultipleChoice

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Kevin is a consultant who works for himself and is predominantly based at home, except for when he visits clients. He has recently taken on a role advising a client about the feasibility of building a new railway station in a village. Which of the following insurances would be vital for Kevin to take out?

## Options:

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- A- product liability
- B- public liability
- C- trade credit
- D- professional indemnity

## Answer:

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D

## Explanation:

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As a consultant he will need Professional Indemnity insurance. This insurance is for roles that include providing advice, designs and services. Insurances comes up a bit in the exam so revise this from p.96-100

## Question 2

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**Question Type:** MultipleChoice

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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:

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- 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:

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C

### **Explanation:**

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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 situation. 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 3**

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**Question Type: MultipleChoice**

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A financial instrument used by airlines to fix the price of fuel over a period of time is known commonly as a what?

**Options:**

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- A- commodity
- B- swap
- C- exchange
- D- hedge

**Answer:**

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B

**Explanation:**

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This is a 'swap' and is explained on p.94. This is a type of 'hedging' but there is no such thing as 'a hedge'. For a more in-depth look at Swaps see: <https://www.mercatusenergy.com/blog/bid/77634/an-introduction-to-airline-fuel-hedging-strategies-swaps>

## Question 4

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**Question Type:** MultipleChoice

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Envy Manufacturing has several factories located in countries with poor reputations for human rights. It is concerned about potential risks of child labour being used within the supply chain. Envy Manufacturing has therefore decided to enlist the support of a third party auditing company to audit its factories. How should these audits be conducted? Select TWO

### Options:

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- A- organised well in advance to allow the factory managers to prepare for the audit
- B- conduct on the spot visits with no warning
- C- conduct group interviews with workers to ensure that all voices are heard
- D- conduct private meetings with a selection of workers

### Answer:

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B, D

### Explanation:

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2 and 4 are correct. Audits should be unscheduled so that any issues can't be covered up in advance. Interviews with workers should also be conducted in private as this will allow them to speak their mind with confidence. Where interviews are conducted as a group there may be peer-pressure to say the correct thing. especially if there are managers around. see p.88 for information on Audits

## Question 5

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**Question Type:** MultipleChoice

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A supplier of non-critical items has a low credit score, Which of the following actions should be taken? Select TWO options.

### Options:

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- A- replace the supplier as quickly as possible with a more financially stable supplier
- B- conduct a benchmarking exercise
- C- create a risk assessment and mitigation plan
- D- inform the CEO of the company

### Answer:

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B, C

### Explanation:

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The correct answers are conduct benchmarking and create a risk assessment. This supplier provides low value and low risk products - therefore the fact they have a bad credit rating isn't too much of a risk to your company. It's worth doing a benchmarking exercise to compare their position to others in the market to see if there are any industry-wide trends, and to create a risk assessment and mitigation

plan. This could involve working with the supplier to help them improve their credit score, for example by using more favourable payment terms so they have a better cash flow. There's no need to replace them immediately, and there's no need to tell the CEO- they probably have more important things to think about than a singular supplier of non-critical items See p.81

## Question 6

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**Question Type:** MultipleChoice

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A large multi-national corporation has just been awarded a credit rating of C by the three main credit rating agencies. What does this score signify?

**Options:**

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- A- low risk
- B- average risk
- C- substantial risk
- D- in default

**Answer:**

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C

**Explanation:**

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a C grade = substantial risk. This is based on the grading system of AAA-D and is explained on p. 80. basically anything that isn't an A is bad.

## Question 7

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**Question Type: MultipleChoice**

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Which of the following risks is associated with sourcing from low-cost countries? Select TWO:

**Options:**

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- A- operational risks
- B- reputational risks
- C- geopolitical risks
- D- financial risks

**Answer:**

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B, C

**Explanation:**

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The correct answers are reputational risks and geopolitical risks. This is according to p. 77 of the study guide. Although I personally feel this is a bit presumptive, painting all 'low-cost' countries with the same brush (are all 'low-cost countries' politically unstable and allow dodgy things that will affect your reputation?, this is what the textbook says ...

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