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CIPS Level 5 Managing Supply Chain Risk

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Question: 29

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?

- 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 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: 30

Which of the following will you put into box 3?

- A. hazard
- B. financial
- C. strategic (Correct)
- D. operational

Answer: C

Explanation:

An aging workforce is a strategic risk for the business.

Question: 31

Which of the following stages would come first within a risk assessment?

- A. evaluate risk
- B. treat risk
- C. monitor risk
- D. analyse risk

Answer: D

Explanation:

analyse is the correct answer. The full process is: establish context- identify- analyse - evaluate - treat - monitor and review. This is from p.122

Question: 32

Which of the following will you put into box 2?

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

Answer: B

Explanation:

The correct answers are as follows:

Table

Description automatically generated

Cashflow issues can lead to serious financial problems and the company going bust.

Therefore this risk must be treated.

Question: 33

Which of the following are factors which can lead to a supplier becoming insolvent? Select THREE

- A. fraudulent activity
- B. attrition of key employees
- C. uncontrolled expenditure
- D. increased market share
- E. a high financial ratio

Answer: A,B,C

Explanation:

1 2 and 3 are factors which can lead to a supplier becoming insolvent. 4- increased market share is a good thing, as it indicates the supplier is doing better than their rivals. A high financial ratio is also a good thing as it shows they have more assets than debt - so this is not a sign of insolvency. See p.24 for 'Supplier Risks'

Question: 34

A black swan event is what type of occurrence?

- A. an occurrence with a good outcome
- B. an occurrence with a negative outcome
- C. a common occurrence
- D. an unusual occurrence

Answer: D

Explanation:

A black swan event is an unusual occurrence - something that is rare. See p.124

Question: 35

Which of the following statements about binomial distribution are true? Select THREE

- A. there are only two outcomes
- B. they are based on continuous events
- C. there is only one outcome per event
- D. each trial has the same probability
- E. the events of one trial will impact on the next one

Answer: A,C,D

Explanation:

1, 3 and 4 are the correct options. Binomial is based on discrete events not continuous and it assumes the events of each trial are independent of one another. This YouTube video explains it all perfectly using the chance that an ice-cream cone is broken. It's a nice memorable example to help you remember what binomial distribution is and how it works: <https://www.youtube.com/watch?v=3EZbX2ftCUk> - it's a very memorable example and really helped me. You can also see more info in the cips textbook p.131

Question: 36

Which of the following are key areas of ISO 26000 Social Responsibility? Select THREE.

- A. organisational governance
- B. quality management

- C. human rights
- D. consumer issues
- E. efficient systems

Answer: A,C,D

Explanation:

1 3 and 4 are the correct answers. There are 7 key areas that ISO 26000 focuses on. As well as these three, there is also labour practices, the environment, fair operating practices and community involvement. See p. 51 of the study guide. ISOs are a popular exam topic so do revise these before the exam.

Question: 37

In probability theory, the chances of a coin landing on heads would be expressed in what way?

- A. 50%
- B. one half
- C. 0.5
- D. 50-50

Answer: C

Explanation:

Question: 38

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

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

Answer: B

Explanation:

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: 39

Which of the following FIDIC Contracts would be suitable for a contract for offshore wind projects?

- A. Construction Contract
- B. Measured Term Contract

- C. Minor Works Contract
- D. Yellow Book Contract

Answer: D

Explanation:

This is the Yellow Book. This is briefly mentioned on p.74 and can often be missed by students. There is a question in the exam about which type of FIDIC contract can be used for construction projects and this is NOT explained in the study guide - so here is a link to FIDIC so you can revise this before the exam:
https://fidic.org/sites/default/files/FIDIC_Suite_of_Contracts_0.pdf

Question: 40

Which of the following will you put into box 6?

- A. audit
- B. monitor
- C. insurance
- D. dual sourcing

Answer: D

Explanation:

The correct answers are as follows:

Table

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