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## Certified Internal Auditor - Part 4, Business Management Skills

IIA IIA-CIA-Part4

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**QUESTION NO: 1**

Which of the following actions is most likely to minimize the effect of perceptual errors?

- A. The sender should ensure that the receiver understands the message by allowing only one-way communication.
- B. The receiver should consider how the sender decodes the message.
- C. The sender alone should minimize noise in the flow of communication.
- D. The receiver should try to understand the sender's perspective.

**ANSWER: D****Explanation:**

Perceptual errors can be minimized in several ways, including feedback from the receiver concerning his/her perceptions and interpretations of the message, understanding of the sender's perspective by the receiver, the sender's sensitivity to the receiver's problems, and implementation of a training program to improve communication skills throughout the company.

**QUESTION NO: 2**

Which of the following is a favorable condition for a firm competing in a profitable, expanding industry?

- A. The firm does not have a strong customer base.
- B. A few suppliers who can restrict supply.
- C. Competitors find it difficult to acquire the firm's customers.
- D. The firm has high costs relative to other firms in the industry.

**ANSWER: C****Explanation:**

A firm that has successfully differentiated its products through developing a desirable image, better services, cost leadership, the features of the product, or other means is in a favorable competitive position. Competitors find it difficult to acquire the firm's customers, for example, by price cutting. The reason is that the firm's products are perceived to have few substitutes, and brand loyalty is high. Furthermore, barriers to entry are favorable to the firm. These barriers deter competitors from entering the market. Existing firms can increase market share and emphasize cutting costs and increasing value.

**QUESTION NO: 3**

The marketing manager of a corporation wrote an interdepartmental memorandum to the budget manager concerning corrections to the sales forecast for the coming year. What is this an example of?

- A. Downward communication.

- B. Upward communication.
- C. Informal communication.
- D. Horizontal communication.

**ANSWER: D**

**Explanation:**

An interdepartmental memorandum, as described, is a horizontal communication in that no superior-subordinate relationship is involved.

**QUESTION NO: 4**

Two managers were discussing the merits of goal setting to improve employee performance. One manager felt that specific goals should not be established and that, to provide for flexibility, only generalized goals should be used. The other manager felt that specific, difficult goals produce the best results. As the discussion continued, other methods of goal setting were identified. Select the best method for setting goals.

- A. The manager should provide generalized goals.
- B. The manager should select specific, difficult goals.
- C. The employee should develop generalized goals and obtain management concurrence.
- D. The employee should develop specific, difficult goals and obtain management concurrence.

**ANSWER: D**

**Explanation:**

According to Edwin Locke's goal-setting theory, specific, difficult goals to which the employee is committed provide the best motivation tool. Performance improves when goals are specific rather than general, difficult rather than easy, and self-set rather than imposed by others. Feedback, especially self-generated feedback, also improves performance compared with lack of feedback. Commitment to goals, that is, a determination not to reduce or abandon them, and self-efficacy, that is, a belief in one's ability to accomplish the task, are additional qualities that result in better performance.

**QUESTION NO: 5**

Entry into a new business may be made by internal development or acquisition. Entry through internal development usually involves creation of a full-fledged new business entity. The costs likely to be incurred by an internal entrant include:

- II. Investments to overcome entry barriers
  - II. Change in the equilibrium level of supply and demand
  - III. Lower prices charged by competitors
  - IV. Higher marketing costs
- A. I and II only.

- B. I and IV only.
- C. II, III, and IV only.
- D. I, II, III, and IV.

**ANSWER: D**

**Explanation:**

An internal entrant must cope with structural barriers and retaliation by existing firms. Costs incurred by the internal entrant include initial investments to overcome entry barriers (facilities, inventory, branding, technology, distribution channels, sources of materials, etc.), operating losses in the start-up phase, and the effects of retaliation (e.g., higher marketing costs, capacity expansion, or lower prices). Other costs include the price increases for factors of production that may result because of the new entry. Also, the capacity added to the industry by the entrant may affect the equilibrium level of supply and demand. The result may be additional competitive costs as firms with excess capacity cut prices.

**QUESTION NO: 6**

The prospect for the long-term profitability of an existing firm is greater when:

- A. The firm operates in an industry with a steep learning curve in its production process.
- B. The costs of switching suppliers is low.
- C. New entrants are encouraged by government policy.
- D. Distribution channels are willing to accept new products.

**ANSWER: A**

**Explanation:**

The prospects of long-term profitability are contingent upon the industry's exit and entry barriers. The entry of new firms in a market decreases the prospect for long-term profitability. When a firm operates in an industry that has a steep learning curve, it is more difficult for new firms to enter the market. Thus, the prospects of long-term profitability are greater for an existing firm.

**QUESTION NO: 7**

Noise may disrupt communication during transmission. All of the following are examples of noise except:

- A. Selective perception.
- B. Static on a telephone line.
- C. A letter lost because it was interspersed with junk mail.
- D. A participant in a conversation being called away for a meeting.

**ANSWER: A**

**Explanation:**

Noise in a communication channel is an outside disruption that impedes the flow of a message. It can vary from real noise, such as loud machines running and static on a phone line, to disruptions such as phone calls during a face-to-face conversation. Selective perception on the part of either the sender or the receiver of a message is not noise because it is not an outside disruption.

**QUESTION NO: 8**

A leader who explains decisions and provides opportunity for clarification is described as having which leadership style?

- A. Selling.
- B. Telling.
- C. Participating.
- D. Delegating.

**ANSWER: A****Explanation:**

According to Hersey and Blanchard, a selling style of leadership provides a high degree of task orientation and a high degree of relationship orientation. This type of leader explains decisions and provides opportunities for clarification. Thus, upward and downward, two-way communication is active. This approach is more democratic than authoritarian.

**QUESTION NO: 9**

A company sells a diverse line of cookies. Its acquisition of another company, a maker of cake mixes, is most likely an example of

- A. Vertical integration.
- B. Horizontal diversification.
- C. Concentric diversification.
- D. Conglomerate diversification.

**ANSWER: B****Explanation:**

Horizontal diversification is the acquisition of businesses making products unrelated to current offerings but that might appeal to the firm's current customers. Cookies and cake mixes are based on different technologies but may be demanded by the same customers.

**QUESTION NO: 10**

Which of the following statements is true regarding leadership styles?

- A.** The manager dictates all decisions to the employees, so communication is downward and tasks are clearly defined in authoritarian leadership.
- B.** Employees in a group are given the authority and responsibility to make individual decisions in democratic leadership.
- C.** The leader delegates substantial authority and employees participate in defining and assigning tasks in laissez-faire leadership.
- D.** None of the answers are correct.

**ANSWER: A**

**Explanation:**

When a manager uses an authoritarian leadership style, he or she dictates all decisions to the employees, so communication is downward. Moreover, tasks are clearly defined. This is considered the classical approach to leadership. Employees are not allowed to give input.

**QUESTION NO: 11**

A small engineering consulting firm accepts special projects from customers in a variety of fields. Its choice of an organic organizational design was most likely based on its:

- A.** Lack of concern for self-fulfillment of employees.
- B.** Preference for formal communication.
- C.** Adoption of directive leadership style.
- D.** Participative decision making processes.

**ANSWER: D**

**Explanation:**

The organic structure is best suited to a company that emphasizes operational efficiency less than the flexibility needed to respond quickly to changes in its environment and the creativity to find solutions to new problems. Decision making in this context tends to rely on input from many sources and requires multidirectional communication. Hence, a horizontal or flat structure typified by project or matrix management will be appropriate.

**QUESTION NO: 12**

The behavioral science literature identifies diffusion as an effective approach to resolving conflict. An auditor effectively using diffusion in working with a confrontational auditee would:

- A.** Set aside critical issues temporarily and try to reach agreement on less controversial issues first.
- B.** Emphasize differences between the parties.
- C.** Avoid the conflict situation.

D. Identify the sources of conflict and address them directly.

**ANSWER: A**

**Explanation:**

Diffusion temporarily leaves the conflict unresolved. Smoothing (downplaying differences and emphasizing common interests) and compromise (requiring each party to make concessions) are diffusion approaches to conflict management. The disadvantage is that the underlying problems remain unresolved while the less controversial issues are being addressed first.

**QUESTION NO: 13**

A production manager is working on a plan to increase employee motivation at a local plant by comparing results of employee interviews to those from employees at a higher performing plant. The manager is puzzled about the results of two sets of employee interviews. The employees interviewed performed identical jobs. Local employees thought their jobs were boring and unfulfilling while the other plant's employees were very satisfied. Even new employees at the local plant indicated they quickly lost enthusiasm. Identify the primary element the manager must overcome to enhance performance.

- A. Negative job perception.
- B. Inadequate job autonomy.
- C. Lack of skill variety.
- D. Low task significance.

**ANSWER: A**

**Explanation:**

The tasks and environment for both sets of employees are the same. Thus, the individuals' perceptions are the key to the problem.

**QUESTION NO: 14**

X and Y are substitute products. If the price of product Y increases, the immediate impact on product X is that its:

- A. Price will increase.
- B. Quantity demanded will increase.
- C. Quantity supplied will increase.
- D. Price, quantity demanded, and supplies will increase.

**ANSWER: B**

**Explanation:**

By definition, if two goods are substitutes, the price of one and the demand for the other are directly related. For example, if the price of Y increases, the quantity demanded of X will increase.

**QUESTION NO: 15**

Which type of organization is based upon strategic long-term relationships based upon implicit contracts and coordination through adaptation?

- A. Hourglass organization.
- B. Cluster organization.
- C. Network organization.
- D. Virtual organization.

**ANSWER: C****Explanation:**

A network organization is a network based upon coordination through adaptation. It also is based upon long-term relationships without specific legal ties.

**QUESTION NO: 16**

An individual who has been formally assigned the task of facilitating communication through a variety of media is sometimes called a:

- A. Gatekeeper.
- B. Liaison.
- C. Opinion leader.
- D. Channel selector.

**ANSWER: B****Explanation:**

A liaison, or media liaison, is an individual in an organization who has been formally assigned the job of facilitating communication. This is usually in the form of a public relations liaison, but in large organizations, internal communication could also be a part of the job.

**QUESTION NO: 17**

Conflict maybe:

- I. Cooperative

II. Competitive

- A. I only.
- B. II only.
- C. Both I and II.
- D. Neither I nor II
- E. Cooperative  
II. Competitive

**ANSWER: C**

**Explanation:**

Conflict may be either cooperative or competitive. Cooperative conflict is constructive and competitive conflict is destructive.

#### QUESTION NO: 18

Backward integration strategy is most appropriate when the firm's current suppliers are:

- A. Highly reliable.
- B. Not reliable.
- C. Geographically dispersed.
- D. Geographically concentrated.

**ANSWER: B**

**Explanation:**

Backward integration is appropriate when the firm's current suppliers are unreliable. Stable relationships between internal sellers and buyers create economies because they need not fear loss of the related buyers and sellers. They also need not fear undue economic pressure from each other. Furthermore, because the relationship is locked in, more efficient procedures for their relationship (e.g., dedicated controls and records) may be implemented. Another advantage is that internal sellers and buyers may more fully adapt to each other's needs than they would or could in dealings with outsiders.

#### QUESTION NO: 19

A firm ships its product to a foreign subsidiary and charges a price that may increase import duties but lower the income taxes paid by the subsidiary. The most likely reason for these effects is that the:

- A. Price is an arm's-length price.
- B. Price is a cost-plus price.
- C. Transfer price is too low.

D. Transfer price is too high.

**ANSWER: D**

**Explanation:**

A transfer price is the price charged by one subunit of a firm to another. When the subsidiary buyer is in a foreign country, the higher the transfer, the higher the potential tariffs. However, the tax levied on a subsequent sale by the subsidiary will be lower because of its higher acquisition cost.

**QUESTION NO: 20**

A leader who is able to gain compliance from a group based solely on personal attraction is said to have:

- A. Reward power.
- B. Coercive power.
- C. Referent power.
- D. Legitimate power.

**ANSWER: C**

**Explanation:**

Referent power is based on identification of subordinates with a superior. Thus, personal magnetism (charisma) maybe a basis for influencing others to comply with a manager's directives.