IIA

Exam IIA-CIA-Part4

Certified Internal Auditor - Part 4, Business Management Skills

Version: 5.0

[Total Questions: 535]

Question No : 1

Which of the following is the most significant reason that domestic governments and international organizations seek to eliminate cartels?

A. The increased sales price reduces the amount of corporate tax revenues payable to the government.
B. True competition keeps prices as low as possible, thus increasing efficiency in the marketplace.
C. Small businesses cannot survive or grow without government protection.
D. The economic stability of developing countries depends on a global free market.

Answer: B

Explanation:

A cartel is an organization of sellers (e.g., the oil cartel OPEC) who undertake joint action to maximize members' profits by controlling the supply, and therefore the price, of their product. Under the laws of many nations, such collusive conduct is illegal when engaged in by firms subject to those laws. The reason is that, as a result of the monopolistic and anticompetitive practices of cartels, supply is lower, prices are high, competition is restrained, and the relevant industry is less efficient. Accordingly, governmental and international organizations seek to protect consumers and the health of the domestic and global economy through anti-cartel efforts.

Question No : 2

When a multinational firm decides to sell its products abroad, one of the risks the firm faces is that the government of the foreign market charges the firm with dumping. Dumping occurs when

A. The same product sells at different prices in different countries.
B. A firm charges less than the cost to make the product so as to enter or win a market.
C. Lower quality versions of the product are sold abroad so as to be affordable.
D. Transfer prices are set artificially high so as to minimize tax payments.

Answer: B

Explanation:

Dumping is an unfair trade practice that violates international agreements. It occurs when a firmcharges a price (1) lower than that in its home market or (2) less than the cost to make the product. Dumping may be done to penetrate a market or as a result of export subsidies.

Question No : 3

A global firm

A. Has achieved economies of scale in the firm's domestic market.
B. Plans, operates, and coordinates business globally.
C. Relies on indirect export.
D. Tends to rely more on one product market.

Answer: B

Explanation:

According to Kotler, "Global firms plan, operate, and coordinate their activities on a worldwide basis." Thus, a global firm secures cost or product differentiation advantages not available to domestic firms.

Question No : 4

A firm expands into international markets to

A. Be in foreign markets.
B. Eliminate foreign competition
C. Pursue new, higher-profit opportunities.
D. Preclude piracy of the firm's products.

Answer: C

Explanation:

A firm may decide to go abroad for many reasons, for example, to respond to a competitive challenge in its home country by another global firm, to pursue opportunities yielding greater profits, to achieve economies of scale, to diversify, or to follow customers who need international service.

Question No : 5

A firm wishing to become global must consider how many national markets to enter. A firm should enter fewer national markets when

A. Communication adaptation costs are low.
B. The product need not be adapted.
C. Entry costs are low.
D. The first countries chosen are heavily populated and have high incomes.

Answer: D

Explanation:

According to Ayal and Zif, the following are factors indicating that few national markets should be entered:

(1) entry costs are high;
(2) market control costs are high;
(3) product adaptation costs are high;
(4) communication adaptation costs are high;
(5) the first countries selected have large populations, high incomes, and high income growth;
(6) a dominant firm can erect high entry barriers.

Question No : 6

The least risky method of entering a market in a foreign country is by

A. Indirect exports.
B. Licensing.
C. Direct exports.
D. Direct investments.

Answer: A

Explanation:

An indirect export strategy operates through intermediaries, such as home-country merchants who buy and resell the product, home-country agents who negotiate transactions with foreign buyers fora commission, cooperatives that represent groups of sellers, and export-management firms that receive fees for administering the firm's export efforts. Indirect export requires lower investment than direct export and is less risky because of the intermediaries' expertise.

Question No : 7

An advantage of a direct investment strategy when entering a foreign market is

A. Reduction in the capital at risk.
B. Shared control and responsibility.
C. Assurance of access when the foreign country imposes domestic content rules.
D. Avoidance of interaction with the local bureaucracy.

Answer: C

Explanation:

Direct investment has many advantages:

(1) cheaper materials or labor,

(2) receipt of investment incentives from the host government,

(3) a strong relationship with interested parties in the host country,

(4) control of the investment,

(5) a better image in the host country,

(6) market access when domestic contest rules are in effect. However, direct investment is risky because of exposure to currency fluctuations, expropriation, potentially high exit barriers, and restraints on sending profits out of the country.

Question No : 8

A firm that moves from not exporting on a regular basis to establishing plants in foreign countries has

A. Globalized.
B. Nationalized.
C. Glocalized.

D. Internationalized.

Answer: D

Explanation:

The internationalization process is of crucial interest to nations that wish to encourage local firms to grow and to operate globally. According to Swedish researchers, it involves the following steps:
(1) Lack of regular exports;
(2) export via independent agents with a few markets, with later expansion to more countries;
(3) creation of sales subsidiaries in larger markets;
(4) establishment of plants in foreign countries.

Question No : 9

Which strategy for a global marketing organization is based on a portfolio of national markets?

A. reaction of a division to manage international marketing.
B. A multinational strategy.
C. A global strategy.
D. Creation of an export department

Answer: B

Explanation:
International marketing efforts take three basic forms:creation of an export department, creation of a division to manage international marketing, or global organization. The latter encompasses genuinely worldwide functions, e.g., manufacturing, marketing, finance, and logistics. Thus, worldwide operations are the organization's focus, not merely that of a department or division of a national firm. A global organization may follow a multinational, global, or glocal strategy. A multinational strategy adopts a portfolio approach. Its emphasis is on national markets because the need for global integration is not strong. The product is customized for each market and therefore incurs higher production costs. Decision making is primarily local with a minimum of central control. This strategy is most effective given large differences between countries. Also, exchange rate risk is reduced when conducting business in this manner.

Question No : 10

Which strategy for a global marketing organization balances local responsiveness and global integration?

A. Global.
B. Multinational.
C. Glocal.
D. Transnational.

Answer: C

Explanation:
A glocal strategy combines some elements of local responsiveness or adaptation with some elements of global integration. Successful telecommunications firms are examples of balancing these elements. Local responsiveness is indicated when local product tastes and preferences, regulations, and barriers are significant. Global integration is indicated when demand is homogeneous and economies of productive scale are large.

Question No : 11

The creation of regional free trade zones is a global phenomenon. Trade barriers are lowered in these areas, and other steps are taken to promote economic cooperation. For example, a common currency has been adopted by the nations of:

A. NAFTA.
B. Mercosul.
C. APEC.
D. The European Union.

Answer: D

Explanation:
The European Union (Eli) is a collection of 27 European nations that have lowered trade barriers among member states, and most of the nations share a common currency and trade policy. The euro is the common currency of the European Union.

Question No : 12

The three major factors favoring globalization are

A. Cultural, commercial, and technical.
B. Flexibility, proximity, and adaptability.
C. Political, technological, and social.
D. Ambition, positioning, and organization.

Answer: C
Explanation:
The new economy is driven by the digital revolution that facilitates international commerce by providing capabilities that did not exist a relatively few years ago. It is also driven by such political events as the fall of the Soviet Union, the participation of China in the world economic system, the emergence of the European Union, and the creation of other regional free trade zones. These technological and political factors are intertwined with social changes, for example, greater concern for the rights of women and minorities; the advance of multilingualism; and the convergence of tastes in fashion, music, and certain other cultural factors. Accordingly, these factors favor globalization by reducing trade barriers, reducing cost of coordination, increasing economies of scale, and encouraging standardization and global branding.

Question No : 13

Which method of expanding into international markets is most likely the riskiest?

A. A local storage and sale arrangement.
B. Local component assembly.
C. Direct investment.
D. Joint venture.

Answer: C
Explanation:

Direct investment has many advantages:
(1) cheaper materials or labor,
(2) receipt of investment incentives from the host government,
(3) a strong relationship with interested parties in the host country,
(4) control of the investment,
(5) a better image in the host country,
(6) market access when domestic contest rules are in effect. However, direct investment is risky because of exposure to currency fluctuations, expropriation, potentially high exit barriers, and restraints on sending profits out of the country.

Question No : 14

Which strategy for a global marketing organization emphasizes relatively strong central control?

A. Global.
B. Multinational.
C. Creation of an international division.
D. Global

Answer: A

Explanation:

A global strategy regards the world as one market. The product is essentially the same in all countries. Central control of the production process is relatively strong. Faster product development and lower production cost are typical.

Question No : 15

Which of the following is a regional free-trade zone currently limited to South American nations?

A. APEC
B. Mercosul.
C. The Triad Market.

D. NAFTA.

Answer: B

Explanation:

Mercosul is a free-trade agreement among South American nations. They include Argentina, Brazil, Uruguay, and Paraguay. Chile and Bolivia are associate members.

Question No : 16

A country has a comparative advantage in international trade when

A. Firms in the country have a lower cost of production because of natural resources.
B. It has an absolute advantage with respect to at least one input to production.
C. Firms in the country have a lower cost of production because of transportation and other geographic factors.
D. It produces whatever it can produce most efficiently.

Answer: D

Explanation:

A country has a comparative advantage when it can achieve a lower cost of production due to a focus on and a cooperative specialization in a particular product. The greatest advantage from trade is obtained when each nation specializes in producing what it can produce most efficiently. If nations specialize and then exchange with others, more is produced and consumed than if each nation tries to be self-sufficient. Specialization of labor is beneficial for individuals; the same principle applies to nations.

Question No : 17

Michael E Porter developed what is popularly known as the diamond model for determining national advantages in the global business environment. According to this model.

A. Factor conditions are production advantages that are nature-made or inherited.
B. Foreign markets exert less influence than home markets on a firm's ability to detect demand trends.