Procurement and Supply Environments

CIPS L3M1

Version Demo

Total Demo Questions: 11

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Topic Break Down

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Topic 1, Understand the role of procurement and supply within organisations	37
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QUESTION NO: 1

Which of the following are widely-used measures of output of a country's economy?

A. GMP

B. GPC

C. GDP

D. GNP

ANSWER: C D

Explanation:

Gross Domestic Product (GDP) and Gross National Product (GNP) are widely used aggregate measures for assessing the scale of economic activity and output. GDP measures the monetary value of final goods and services produced within a country's geographical borders over a specified period. It is therefore a central measure used in national accounts, economic comparisons, fiscal planning and analysis of economic growth. For procurement and supply professionals, GDP is a useful indicator of the broad economic environment affecting demand, business confidence, public expenditure and supplier markets.

GNP measures the output attributable to a country's residents or nationals, regardless of whether the production occurs domestically or abroad. In national accounting terms, it reflects GDP adjusted for net primary income from the rest of the world. Although Gross National Income is now more commonly used in many official statistical publications, GNP remains a recognised and widely understood economic measure, particularly in introductory economic and business contexts. The UK Office for National Statistics explains national-account measures and GDP at ONS GDP statistics; the World Bank provides internationally comparable data for Gross National Income/GNP.

QUESTION NO: 2

The system by which organisations are directed and controlled, thinking about business ethics and stakeholder responsibility, and where Directors may be held to account, is called:

A. Corporate Identity

B. Corporate Social Responsibility

C. Corporate Manslaughter

D. Corporate Governance

ANSWER: D

Explanation:

Corporate Governance is correct because it is the framework of rules, practices, processes and relationships through which an organisation is directed, overseen and held accountable. It defines the role of the board of directors in setting strategic direction, supervising management, managing risk, maintaining effective controls and reporting openly to shareholders and other stakeholders. The reference to directors being held to account is particularly central: governance establishes the mechanisms by which boards must justify decisions, act with appropriate care and integrity, and meet their legal and fiduciary responsibilities. In a procurement and supply context, sound corporate governance supports ethical decision-making, transparent supplier selection, anti-bribery controls, management of conflicts of interest and responsible treatment of stakeholders throughout the supply chain. The UK Corporate Governance Code describes the board's responsibility for the company's purpose, strategy, culture, controls and long-term sustainable success. CIPS similarly identifies governance as an important foundation for ethical and responsible procurement practice. See the UK Corporate Governance Code and CIPS' Corporate Governance Code.

QUESTION NO: 3

Because of the need for frequent or semi-frequent uses of competition, public sector buyers are less likely to find themselves in a close partnership arrangement with a supplier than private sector buy-ers. True or false?

A. False

B. True

ANSWER: B

Explanation:

True is correct. Public-sector procurement operates within a framework intended to safeguard public money, demonstrate accountability and provide fair access to suppliers. Consequently, public buyers commonly need to run open, transparent and proportionate competitions when establishing contracts and again when requirements are re-tendered. This recurring exposure to competition can limit the duration and exclusivity of supplier relationships, making the very close, highly integrated partnerships sometimes seen in private-sector supply chains less likely.

That does not mean public bodies cannot collaborate constructively with suppliers. They can build effective working relationships, use framework agreements, manage supplier performance jointly and encourage continuous improvement during a contract's permitted term. However, those relationships must remain consistent with procurement principles, including equal treatment, transparency and non-discrimination, and must not improperly prevent other capable suppliers from competing for future opportunities. The UK Government's procurement guidance describes these principles and the importance of fair, transparent competition; CIPS also identifies public-sector accountability and regulatory requirements as key features of the procurement environment. See the UK Government guidance on the Procurement Act 2023 and CIPS procurement topics and skills resources.

QUESTION NO: 4

Which of the following might result from increased costs of production (especially wages) without increased demand, so that producers have to increase their prices to maintain profitability?

A. Demand-pull inflation

B. Cost-push inflation

C. Monetary inflation

D. Stagflation

ANSWER: B

Explanation:

Cost-push inflation is the correct term for inflation arising when firms face higher production costs, such as increased wages, energy prices, raw-material costs, or indirect taxes, and pass some or all of those higher costs on through increased selling prices. The key feature in the question is that prices rise because the cost of supplying goods and services has increased, rather than because demand has grown. Producers may need to adjust prices to protect their profit margins or to keep their operations financially viable. In procurement and supply environments, cost-push inflation is particularly relevant because suppliers can experience cost increases across labour, transport, commodities, utilities, and components. These increases may lead to requests for price adjustments, use of index-linked pricing clauses, renegotiation of contracts, or supplier-margin pressure. Understanding this form of inflation helps procurement professionals assess the basis of supplier price increases and develop proportionate commercial responses. The Bank of England describes cost-push inflation as price rises caused by increasing costs for businesses, including materials and wages. See the Bank of England's inflation explainer and the IMF's overview of inflation.

QUESTION NO: 5

'Cost transparency' is the notion that:

A. The buyer will reveal its' actual costs to the seller

B. Both sides will reveal their costs to each other

C. The seller will reveal its' actual costs to the buyer

D. Cost is not an issue

ANSWER: B

Explanation:

Both sides will reveal their costs to each other is correct because cost transparency describes a collaborative approach in which trading partners openly share relevant cost information. In a close buyer–supplier relationship, this can include the supplier's material, labour, overhead and margin assumptions, alongside buyer-side information that affects the economics of the arrangement, such as demand forecasts, specifications, ordering patterns, inventory expectations or process requirements. The purpose is to create a shared factual basis for decisions, rather than for either party simply to demand a lower price.

This level of visibility supports joint cost analysis and continuous improvement. When both organisations understand the cost drivers across the relationship, they can identify waste, redesign products or processes, improve planning, and agree how efficiencies and resulting benefits should be shared. It therefore depends on mutual trust, appropriate confidentiality arrangements and a commitment to long-term value rather than adversarial price negotiation. CIPS describes collaborative supplier relationships as involving openness, trust and information sharing, all of which underpin meaningful transparency. Guidance on open contracting also recognises transparency as disclosure that enables informed scrutiny and better commercial outcomes. See CIPS guidance on supplier relationships and the Open Contracting Partnership's overview of transparency.

QUESTION NO: 6

Pressure groups which seek to promote a particular issue, such as human rights, the environment; or raise awareness (eg modern slavery); or lobby for legislative change on a particular issue (eg species protection) are called:

A. Casual pressure groups

B. Sectional pressure groups

C. Blood pressure groups

D. Cause pressure groups

ANSWER: D

Explanation:

Cause pressure groups is the correct term. These groups organise around a shared public interest, principle, or cause rather than representing the direct economic or professional interests of a defined membership. Their purpose is to influence public opinion, organisational behaviour, and government policy on an issue such as environmental protection, human rights, animal welfare, or the prevention of modern slavery. They may achieve this through awareness campaigns, research, media engagement, petitions, demonstrations, direct lobbying, and encouraging legislative or regulatory reform.

For procurement and supply professionals, cause pressure groups are an important part of the external environment because their campaigns can shape stakeholder expectations, reputational risk, customer requirements, legislation, and responsible sourcing standards. For example, campaigning on modern slavery or environmental impacts can lead organisations to strengthen supply-chain due diligence, supplier codes of conduct, reporting, and ethical procurement practices. The UK Parliament describes pressure groups as organisations seeking to influence government policy, while Britannica distinguishes groups advancing broader causes from those focused on members' specific interests. See UK Parliament: Pressure groups and Encyclopaedia Britannica: Interest group.

QUESTION NO: 7

Under a contract with a price adjustment clause, which of the following would commonly be grounds for price adjustment (depending on the precise contract terms)?

A. Quality problems brought about by supplier's haste to complete the contract to aid their cashflow

B. Substantially escalating materials costs

C. Exchange rate fluctuations

D. Desire by shareholders to have increased profits

ANSWER: B C

Explanation:

Price adjustment clauses provide an agreed mechanism for changing the contract price when specified external cost drivers move during the contract period. Substantially escalating materials costs are a common basis for adjustment, particularly in longer-term supply arrangements where the supplier's input prices may change materially after the price was agreed. The contract should identify the relevant materials or cost index, the baseline date, the frequency of review and the formula that determines any increase or decrease.

Exchange rate fluctuations are also commonly covered where the supplier must buy goods, components or services in a foreign currency, or where the contract price has an identified currency exposure. A well-drafted clause defines the exchange rate source, base currency, comparison date and any limits or sharing mechanism. In both cases, adjustment is not automatic simply because costs or currency rates change: it arises only where the clause expressly allocates that risk and its stated conditions are met. The adjustment may operate downwards as well as upwards, helping maintain a fair, transparent allocation of risk over the life of the agreement. CIPS discusses the use of pricing mechanisms and contractual risk allocation in its procurement and supply learning resources; see CIPS Knowledge and the UK government's guidance on managing commercial contracts at Commercial Operating Standards for Government.

QUESTION NO: 8

Which of the following is least risky from the buyer's viewpoint?

A. Payment on delivery

B. Payment of 50% at time of order; with balance to be paid 90 days after delivery

C. Payment in full at time of order

D. Payment 60 days after delivery

ANSWER: D

Explanation:

Payment 60 days after delivery is least risky for the buyer because the buyer retains its funds until after the supplier has delivered the goods. This payment timing gives the buying organisation an opportunity to receive the goods, verify the quantity and quality against the contract or purchase order, carry out inspection or acceptance procedures, and raise any discrepancies before payment becomes due. The additional credit period also protects the buyer's working capital and reduces its exposure if delivery is late, incomplete, defective, or not in accordance with the agreed specification.

In procurement, payment terms are an important method of allocating commercial and financial risk between buyer and supplier. A deferred-payment arrangement places less pre-delivery financial exposure on the buyer than arrangements requiring payment when ordering or when goods arrive. It also provides time for the buyer to confirm that the supplier has fulfilled its contractual obligations, while still creating a clear, agreed date for settlement. This is consistent with the importance CIPS places on managing contractual risk, supplier performance, and cash-flow implications in purchasing decisions. See CIPS procurement and supply-chain management resources and the UK Prompt Payment Code guidance.

QUESTION NO: 9

A buyer is assessing the bargaining power of suppliers in a market for a critical electronic component. Which factors would tend to increase supplier power? Select two.

A. A small number of qualified suppliers

B. High costs of changing to an alternative supplier

C. A large number of capable competing suppliers

D. Low cost and ease of switching supplier

ANSWER: A B

Explanation:

A small number of qualified suppliers and high switching costs both increase supplier power. Where only a few suppliers can meet the required technical, quality or regulatory standard, the buyer has fewer credible alternatives. If changing supplier requires costly redesign, testing, approval or operational disruption, the buyer is less able to move its business.

A large number of capable suppliers would normally reduce supplier power, while low switching costs make it easier for the buyer to change source. These conditions strengthen the buyer's negotiating position rather than the supplier's.

QUESTION NO: 10

A retailer is sourcing cotton uniforms and wishes to reduce reputational risk arising from poor labour conditions in its supply chain.

Which two actions would most directly support this objective? Select two.

A. Require suppliers to comply with a labour and ethical sourcing code

B. Assess suppliers’ labour practices through proportionate due diligence

C. Award the contract solely to the lowest-priced bidder

D. Extend supplier payment terms to improve buyer cash flow

ANSWER: A B

Explanation:

Requiring suppliers to comply with a code of conduct and seeking evidence of labour practices through appropriate due diligence are both direct methods of addressing labour-risk concerns. They make the buyer’s expectations clear and provide a basis for assessing whether suppliers are meeting them.

Choosing solely on lowest initial price can increase pressure on supplier margins and provides no assurance about working conditions. Extending payment terms may support the buyer’s cash flow, but it does not investigate or manage labour practices.

QUESTION NO: 11

Sources of finance for a private sector entity primarily include (select all that apply):

A. Taxpayers

B. Long-term bank loans

C. Sales revenues

D. Shareholders' funds

ANSWER: B C D

Explanation:

Long-term bank loans, sales revenues and shareholders' funds are primary sources of finance for a private-sector entity. Sales revenue is the principal internally generated source of funds: when customers buy goods or services, the organisation receives cash that can support operating expenditure, working capital and reinvestment. Its availability is central to the financial sustainability of a trading business.

Shareholders' funds provide equity finance. This may comprise capital initially invested by owners, funds raised through issuing shares, and profits retained in the business rather than distributed. Equity gives the entity a longer-term financial base and does not ordinarily carry a contractual obligation to repay the capital on a specified date. The UK Government's guidance distinguishes equity investment from debt finance and notes that businesses can finance activities through investors as well as borrowing.

Long-term bank loans are a debt-finance source suitable for funding significant assets, expansion or other longer-duration requirements. They provide capital that is repaid over an agreed period, usually with interest, enabling the cost of an investment to be matched more closely to the period in which it generates value. These three sources therefore represent the usual internal trading income, owner-provided capital and external long-term borrowing available to private-sector organisations. See UK Government business finance guidance and the Bank of England's explanation of equity finance.