



# IIA-CIA-PART3<sup>Q&As</sup>

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### QUESTION 1

A corporation is performing research to determine the feasibility of entering the truck rental industry. The decision to enter the market is most likely to be deterred if:

- A. Buyer switching costs are high.
- B. Buyers view the product as differentiated.
- C. The market is dominated by a small consortium of buyers.
- D. Buyers enjoy large profit margins.

Correct Answer: C

When purchasing power is concentrated in a few buyers or when buyers are well organized, their bargaining power is greater. This effect is reinforced when sellers are in a capitalintensive industry, such as trucking.

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### QUESTION 2

According to Arthur D Little, a competitor firm that can act independently and sustain its long-term status irrespective of the behavior of others holds which of the following competitive positions?

- A. A dominant position.
- B. A strong position.
- C. A favorable position.
- D. A tenable position.

Correct Answer: B

Evaluating a competitor's market position is necessary to judge how and whether to challenge it. A firm in a strong competitive position can act independently and sustain its long-term status irrespective of the behavior of others.

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### QUESTION 3

Which of the following principles are common to both hierarchical and open organizational structures?

1.  
Employees at all levels should be empowered to make decisions.
2.  
A supervisor's span of control should not exceed seven subordinates.
3.  
Responsibility should be accompanied by adequate authority.



4.

A superior cannot delegate the ultimate responsibility for results.

- A. 1 and 2
- B. 1 and 4
- C. 2 and 3
- D. 3 and 4

Correct Answer: D

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#### QUESTION 4

A substantial duplication of functions characterizes which of the following structures?

- A. Simple structure.
- B. Divisional structure.
- C. Machine bureaucracy.
- D. Professional bureaucracy.

Correct Answer: B

A division is essentially a self-contained organization. Hence, it must perform all or most of the functions of the overall organization of which it is a part. It is characterized by substantial duplication of functions when compared with more centralized structures.

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#### QUESTION 5

When uncertainty about an industry's future is greatest and other markets for the firm's assets are favorable, it should most likely follow a:

- A. Harvest strategy.
- B. Quick divestment strategy.
- C. Leadership strategy.
- D. Niche strategy.

Correct Answer: B

A quick divestment strategy assumes that the highest net recovery is obtained by sale early in the decline phase. It is then that uncertainty about the industry's future is greatest and other markets for the assets are most favorable. Indeed, divestiture may be indicated during the maturity phase prior to decline. But the firm risks being wrong about the onset of the decline phase. Quick divestment should be chosen when the industry structure is unfavorable, and the firm lacks strengths in the remaining pockets of demand.

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### QUESTION 6

Patents are granted to encourage firms to invest in the research and development of new products. Patents are an example of

- A. Vertical integration.
- B. Market concentration.
- C. Entry barriers.
- D. Collusion.

Correct Answer: C

Entry barriers exist in all market structures other than perfect competition. The fewer the firms in an industry, the greater the barriers tend to be. Entry barriers include the existence of substantial economies of scale (low unit costs can be achieved only by large producers). They also include barriers created by existing firms. For example, large advertising expenditures may be necessary to compete. Control of raw materials or technology is another barrier. Consequently, patents held by existing firms may serve as an entry barrier because they prevent potential competitors from using certain technology. Patents are rights granted by the federal government to inventors to allow them the exclusive use of their inventions for a specific.

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### QUESTION 7

Which of the following is not a characteristic of informal groups?

- A. Informal groups are developed to establish friendships.
- B. Informal groups tend to be small and very complex.
- C. Membership in informal groups lasts longer than membership in formal groups.
- D. Informal groups develop their own leaders.

Correct Answer: C

Membership in formal groups tends to last longer than membership in informal groups. Membership in both groups is usually different as well.

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### QUESTION 8

In a declining industry with a favorable structure, a firm may have the ability to recover additional investment or to earn above-average returns in the remaining pockets of demand. Such a firm is most likely to follow a:

- A. Quick divestment strategy.
- B. Harvest strategy or quick divestment strategy.
- C. Leadership strategy or harvest strategy.



D. Leadership strategy or niche strategy.

Correct Answer: D

A leadership strategy is pursued by a firm that believes it can achieve market share gains to become the dominant firm. An assumption is that additional investment can be recovered. A second assumption is that success will put the firm in a better position to hold its ground or subsequently to follow a harvest strategy. A niche strategy seeks a market segment (pocket of demand) with stable or slowly decreasing demand with the potential for above-average returns. Some of the moves undertaken when following a leadership strategy may be appropriate. The firm may eventually change to a harvest or divest strategy.

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#### QUESTION 9

During which stages do the primary issues among group members involve uncertainty about power and authority relationships?

- A. Yes Yes
- B. Yes No
- C. No Yes
- D. No No

Correct Answer: B

According to Jewell and Reill, the principal issue in the early stages is uncertainty about power and authority relationships. The principal issue in the later stages is uncertainty about interpersonal relationships.

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#### QUESTION 10

Which mindset promotes the most comprehensive risk management strategy?

- A. Increase shareholder value.
- B. Maximize market share.
- C. Improve operational efficiency.
- D. Mitigate losses.

Correct Answer: A

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#### QUESTION 11

An information flow factor that may lead to industry overcapacity is:

- A. The need to give assurance to large customers.
- B. Stable industry structure.



- C. Presence of tax incentives.
- D. Untrustworthy market signaling.

Correct Answer: D

Market signaling may be ineffective because it is no longer regarded as credible. Firms' signals may no longer be trusted as indicators of planned moves, such as expansion, because of new entrants, a period of bitter rivalry, or other reasons. Credible signaling fosters orderly expansion by allowing all parties to plan effectively.

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#### QUESTION 12

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.

Correct Answer: A

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.

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#### QUESTION 13

Which of the following is not true with regard to informal groups?

- A. Members of the group are susceptible to group pressure.
- B. The groups develop primarily to satisfy esteem needs.
- C. Almost all employees and managers are members of an informal group.
- D. Informal groups tend to be small and have simple relationships.

Correct Answer: D

Informal groups tend to be small and are often very complex. They develop their own leaders and usually result from the frequent interaction among individuals in the course of their work.

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#### QUESTION 14

Which one of the following is not an example of formal internal communication?



- A. Input for the yearly budget provided by the Purchasing Department to the director of budgeting.
- B. Environmental impact statements.
- C. Expense account reports.
- D. Safety bulletins.

Correct Answer: B

A formal communication is conducted through the formal structure of the organization. Informal communication operates outside of officially established channels. An internal communication is one that is both generated and received within the organization. An environmental impact statement is generated within the organization, but the recipient a governmental body) is outside the organization.

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#### QUESTION 15

Which of the following statements is true regarding the use of public key encryption to secure data while it is being transmitted across a network?

- A. Both the key used to encrypt the data and the key used to decrypt the data are made public.
- B. The key used to encrypt the data is kept private but the key used to decrypt the data is made public.
- C. The key used to encrypt the data is made public but the key used to decrypt the data is kept private.
- D. Both the key used to encrypt the data and the key used to decrypt the data are made private.

Correct Answer: C

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