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QUESTION 1

A manager implementing the directive leader approach should:

- A. Closely supervise each employee.
- B. Display confidence in each employee's ability.
- C. Work with the employee when developing goals.
- D. Clearly signal that the employee is expected to be successful.

Correct Answer: A

QUESTION 2

The most likely generic benefit of vertical integration is:

- A. Lowering entry barriers.
- B. Increasing demand.
- C. Avoiding market transactions.
- D. Lowering mobility barriers.

Correct Answer: C

Economies of vertical integration result from avoiding some market transactions. Transaction costs of dealing with outside parties are greater than those of dealing with inside parties.

QUESTION 3

Which of the following is not a cost of decentralization?

- A. Dysfunctional decision making owing to disagreements of managers regarding overall goals and sub goals of the individual decision makers.
- B. A decreased understanding of the overall goals of the organization.
- C. Increased costs for developing the information system.
- D. Increased costs of corporate-level staff services and management talent.

Correct Answer: D

The costs of centralized staff may actually decrease under decentralization. On the other hand, the corporate staff and the various services they provide may have to be duplicated in various divisions, thereby increasing overall costs. Suboptimal decisions may result from disharmony among organizational goals, subgoals of the division, and the



individual goals of managers. The overall goals of the firm may more easily be misunderstood because individual managers may not see the larger picture. Moreover, the information system necessary for adequate reporting in a decentralized mode will tend toward redundancy, which increases costs.

QUESTION 4

Forecasting early and late markets is necessary to shape product development and marketing efforts and to predict structural evolution of an industry. Which factor is the most significant in obtaining customer acceptance of a new industry's product or service?

- A. High switching costs.
- B. Required regulatory approval.
- C. High cost of obsolescence.
- D. A performance rather than a cost advantage.

Correct Answer: D

The nature of the benefit is the most significant factor. At one extreme, the benefit may consist of a performance advantage unattainable by other methods. At the other extreme, the benefit may be a pure cost advantage. Ordinarily, early markets purchase a product because it offers a performance advantage. Early markets tend to be suspicious of a product offering a cost advantage.

QUESTION 5

Among the non-financial rewards to an employee, a paid vacation trip can best be categorized as:

- A. Social reward.
- B. Token award.
- C. Visual/auditory reward.
- D. Manipulatetables.

Correct Answer: B

Token awards are normally nonrecurring. They show appreciation for the role of the employee. Other similar examples are gift coupons, stock options, early time off with pay, or dinner and theater tickets.

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