

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

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### QUESTION 1

Which of the following focuses on finding statistical relationships in order to create profiles?

- A. Process mining.
- B. Process analysis.
- C. Data mining.
- D. Data analysis.

Correct Answer: D

Reference: [https://www.researchgate.net/profile/Mohamed\\_Hammad11/post/What\\_instrument\\_is\\_used\\_to\\_analyze\\_qualitative\\_descriptive\\_data/attachment/59d659ca79197b80779af218/AS%3A543750520664064%401506651634578/download/CHAPTER+6-+DATA+ANALYSIS+AND+INTERPRETATION.pdf](https://www.researchgate.net/profile/Mohamed_Hammad11/post/What_instrument_is_used_to_analyze_qualitative_descriptive_data/attachment/59d659ca79197b80779af218/AS%3A543750520664064%401506651634578/download/CHAPTER+6-+DATA+ANALYSIS+AND+INTERPRETATION.pdf)

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### QUESTION 2

When demand uncertainty is low, firms tend to adopt a strategy of preemptive expansion. The conditions for successful preemption expansion include which of the following?

- A. The firm should avoid market signals that alert competitors to the firm's plans.
- B. The expansion should be small relative to the market to minimize risk.
- C. Economies of scale should be large relative to demand.
- D. The business should be strategically vital to competitors.

Correct Answer: C

Economies of scale should be large in relation to demand, or the learning-curve effect should give an initial large investor a permanent cost advantage. For example, the preemptive firm may be able to secure too much of the market to allow a subsequent firm to invest at the efficient scale. That is, the residual demand available to be met by the later firm is less than the efficient scale of production. The later firm therefore must choose between intense competition at the efficient scale or a cost disadvantage.

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### QUESTION 3

Which of the following is not a technological factor that may lead to overbuilding?

- A. Long lead times for adding capacity.
- B. Changes in production technology.
- C. The presence of economies of scale.
- D. High exit barriers.

Correct Answer: D

The following are technological factors that may lead to overbuilding:

- (1)  
capacity may need to be added in large increments; (2) the presence of economies of scale or a steep learning curve encourages preemption; (3) long lead times for adding capacity increase the risk of competitive inferiority if a firm does not act quickly to raise capacity;
- (4)  
when the minimum efficient scale increases, large plants are becoming more efficient even though demand is not growing;and
- (5)  
changes in production technology result in new construction while old plants remain in operation. High exit barriers are a structural factor that may lead to overbuilding. The effect of high exit barriers is to extend the period of overcapacity.
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#### QUESTION 4

Every month, the superintendent of a production department sends copies of the department's production variance reports to the supervisory staff, asking the supervisory staff to explain variances that exceed certain prescribed limits. The superintendent's communication of variance to the supervisory staff and the supervisory staff's explanation to the superintendent of the variances are examples of:

- A. Horizontal communication and upward communication, respectively.
- B. Formal and informal communication, respectively.
- C. Informal communication and the grapevine, respectively.
- D. Downward communication and upward communication, respectively.

Correct Answer: D

Communication can be downward from superior to subordinate), upward from subordinate to superior), or horizontal from one peer to another). The superintendent's communication of variance reports to the subordinates is downward communication. The subordinates' replies are upward communications.

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#### QUESTION 5

Which of the following activities most significantly increases the risk that a bank will make poor-quality loans to its customers?

- A. Borrowers may not sign all required mortgage loan documentation.
- B. Fees paid by the borrower at the time of the loan may not be deposited in a timely manner.
- C. The bank's loan documentation may not meet the government's disclosure requirements.
- D. Loan officers may override the lending criteria established by senior management.

Correct Answer: D

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