

Chapter 7

Student: _____

1. An uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives is termed a
 - A. Random chance.
 - B. Disaster.
 - C. Risk.
 - D. Hazard.
 - E. Bad luck.
2. The chances of a risk event occurring as a project proceeds through its life cycle tend to
 - A. Slowly rise.
 - B. Drop sharply and then level out.
 - C. Rise sharply and then level out.
 - D. Remain about the same.
 - E. Slowly drop.
3. The cost impact of a risk event occurring as a project proceeds through its life cycle tends to
 - A. Slowly rise.
 - B. Drop sharply and then level out.
 - C. Rise sharply and then level out.
 - D. Remain about the same.
 - E. Slowly drop.
4. The attempt to recognize and manage potential and unforeseen trouble spots that may occur when a project is implemented is known as
 - A. Risk forecasting.
 - B. Risk management.
 - C. Contingency planning.
 - D. Scenario analysis.
 - E. Disaster protection.

5. Which of the following is NOT one of the steps in the risk management process?
- A. Risk response development
 - B. Risk assessment
 - C. Risk identification
 - D. Risk tracking
 - E. Risk response control
6. The initial step in the risk management process is to
- A. Determine the level of acceptable risk.
 - B. Assess the risk potential.
 - C. Identify the risks.
 - D. Set aside budget funds for managing the risks.
 - E. Appoint a risk manager.
7. One common mistake made early in the risk identification process is to
- A. Not consider all possibilities
 - B. Encourage participants be over optimistic
 - C. Support participants being over pessimistic
 - D. Focus on consequences and not on the events that could produce consequences
 - E. Give too much attention to past events
8. Organizations use _____ in conjunction with work breakdown structures to help management teams identify and eventually analyze risk.
- A. Risk breakdown structures
 - B. Contingency breakdown structures
 - C. Scenario analysis
 - D. Organizational breakdown structure
 - E. Risk assessment
9. Which of the following groups should NOT be a part of the risk identification process?
- A. Project team
 - B. Customers
 - C. Subcontractors
 - D. Vendors
 - E. All of these groups can be included in the risk identification process

10. After your team has successfully identified potential risks that could affect the project, what is the next step?
- A. Create a risk breakdown structure
 - B. Assess identified risks
 - C. Create contingency plans
 - D. Decide how to respond to all risks
 - E. Mitigate risks
11. A list of questions that address traditional areas of uncertainty on a project is termed a
- A. Risk profile.
 - B. Questionnaire.
 - C. Research matrix.
 - D. Query.
 - E. Checklist.
12. _____ focuses on how to respond to events that have a positive impact on a project.
- A. Risk management
 - B. Opportunity management
 - C. Value management
 - D. Contingency management
 - E. Prospect management
13. Tools such as a risk assessment form and a risk severity matrix are used to
- A. Identify risks.
 - B. Control risks.
 - C. Assess risks.
 - D. Regulate risks.
 - E. Respond to risks.

14. Based on the following, which event should you be most concerned about?

Risk Event	Likelihood	Impact
Bad weather	2	3
Design flaw	3	5
Accident	1	5
Shipment delay	2	2
Power outage	1	5

- A. Bad weather
 - B. Design flaw
 - C. Accident
 - D. Shipment delay
 - E. Power outage
15. _____ is a measure of how easy it would be to notice that a risk event was going to occur in time to take mitigating action, that is, how much warning you would have.
- A. Detection difficulty
 - B. Impact scaling
 - C. Probability analysis
 - D. Awareness level
 - E. Warning assessment
16. Purchasing an accident insurance policy would be an example of responding to a risk by _____ it.
- A. Mitigating
 - B. Retaining
 - C. Ignoring
 - D. Transferring
 - E. Avoiding
17. The risk management tool that is divided into three color-coded zones representing major, moderate, and minor risks is the risk _____.
- A. Assessment form.
 - B. Responsibility matrix.
 - C. Scenario assessment.
 - D. Impact assessment.
 - E. Severity matrix.

18. The risk assessment form contains all of the following EXCEPT

- A. Likelihood of the risk event occurring.
- B. Potential impact of the risk event.
- C. Who will detect the occurrence of the risk event.
- D. Difficulty of detecting the occurrence of the risk event.
- E. When the risk event may occur.

19. Risks are evaluated in terms of

- A. Likelihood and cost.
- B. Cost and schedule.
- C. Impact and cost.
- D. Time and impact.
- E. Likelihood and impact.

20. Adopting proven technology instead of experimental technology in order to eliminate technical failure would be an example of which risk response?

- A. Mitigating
- B. Retaining
- C. Ignoring
- D. Transferring
- E. Avoiding

21. Which of the following activities might you consider adding a time buffer to?

- A. Activities with severe risks
- B. Merge activities that are prone to delays
- C. Activities with scarce resources
- D. Noncritical activities with very little slack
- E. You might consider adding a time buffer to any of these activities

22. Which of the following is NOT included in a Failure Mode and Effects Analysis?

- A. Impact
- B. Probability
- C. Detection
- D. Risk value
- E. All of these are included

23. A fixed price contract is an example of

- A. Avoiding risk.
- B. Transferring risk.
- C. Accepting risk.
- D. Ignoring risk.
- E. Mitigating risk.

24. Which of the following is NOT one of the potential responses to a specific risk event?

- A. Mitigating
- B. Retaining
- C. Ignoring
- D. Transferring
- E. Avoiding

25. A Risk Response Matrix contains all of the following EXCEPT

- A. Contingency plan.
- B. Trigger.
- C. Who is responsible.
- D. Response.
- E. When the risk will occur.

26. A key distinction between a risk response and a contingency plan is

- A. A risk response is established only for moderate risks while contingency plans are established for major risks.
- B. A risk response is part of the actual implementation plan and action is taken before the risk can materialize, while a contingency plan goes into effect only after the risk has transpired.
- C. A risk response is only effective when you are able to assess the likelihood of the risk and its impact on the project; all other risks are covered by contingency planning.
- D. A risk response is created by the project team and the project manager while the project manager and the customer agree on the contingency plan.
- E. A risk response is action that is the response to a risk once it has happened and the contingency plan is created by the customer if the risk response fails.

27. The risk associated with the unlikelihood that one of the key members will be struck by lightning would most likely be handled by which of the following?

- A. Mitigating
- B. Retaining
- C. Ignoring
- D. Transferring
- E. Avoiding

28. Funds that are for identified risks that have a low probability of occurring and that decrease as the project progresses are called _____ reserves.
- A. Management
 - B. Budget
 - C. Contingency
 - D. Padded
 - E. Just in case
29. Risks that can result in a system or process that will not work are known as
- A. Technical risks.
 - B. Funding risks.
 - C. Schedule risks.
 - D. Cost risks.
 - E. Unnecessary risks.
30. Which of the following is NOT involved in risk control?
- A. Executing the risk response strategy
 - B. Initiating contingency plans
 - C. Establishing a change control system
 - D. Establishing contingency funds
 - E. Watching for new risks
31. Which of the following is identified to cover major unforeseen risks and, hence, are applied to the total project?
- A. Project reserves
 - B. Management reserves
 - C. Time buffers
 - D. Activity reserves
 - E. Budget reserves
32. Change management systems are designed to accomplish all of the following EXCEPT
- A. Track all changes that are to be implemented.
 - B. Review, evaluate, and approve/disapprove proposed changes formally.
 - C. Identify expected effects of proposed changes on schedule and budget.
 - D. Reflect scope changes in baseline and performance measures.
 - E. All of these are examples of what change management systems are designed to accomplish.

33. An uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives is known as a _____.
- _____
34. The likelihood of a risk event occurring _____ as a project goes through its life cycle.
- _____
35. The first step in the risk management process is _____.
- _____
36. The significance of a risk is assessed in terms of the _____ and the impact of the event.
- _____
37. A list of questions that address traditional areas of uncertainty on a project is known as a _____.
- _____
38. The measurement of how easy it would be to detect that the event was going to occur in time to take mitigating action is known as _____.
- _____
39. The _____ form identifies each risk event, the likelihood of it occurring, the potential impact, when it may occur, and the degree of difficulty in detecting it.
- _____
40. The _____ matrix is divided into red, yellow, and green zones representing major, moderate, and minor risks.
- _____
41. According to the Failure Mode and Effects Analysis (FMEA), $\text{Impact} \times \text{Probability} \times \text{Detection} =$ _____.
- _____
42. When considering risk response development, reducing the likelihood that an event will occur and/or reducing the impact that an adverse event would have on a project is known as _____ the risk.
- _____
43. When considering risk response development, changing the plan to eliminate the risk or condition is known as _____ the risk.
- _____

44. When considering risk response development, passing risk to another party instead of changing it is known as _____ the risk.
- _____
45. When considering risk response development, assuming the risk because the chance of such an event is slim is known as _____ the risk.
- _____
46. Testing a new project on a smaller isolated area prior to installing it for the entire organization is an example of _____ a risk.
- _____
47. Performance bonds, warranties, and insurance are examples of _____ a risk.
- _____
48. Choosing to move a concert indoors to eliminate the threat of bad weather is an example of _____ a risk.
- _____
49. Flooding would be devastating to the project; however, it is very unlikely. The project manager is most likely to _____ this risk.
- _____
50. The event or point in time when a contingency plan will be implemented is called a _____.
- _____
51. _____ reserves are identified for specific work packages and are distributed by the project manager and the team members.
- _____
52. _____ reserves are controlled by the project manager and the owner of the project and are used to cover major unforeseen risks to the entire project.
- _____
53. A _____ is an alternative that will be used if a possible foreseen risk event becomes a reality.
- _____
54. _____ systems involve reporting, controlling, and recording changes to the project baseline.
- _____

55. The probability that a risk event will occur is higher during the initial stages of a project.

True False

56. Risk events that occur in the early stages of a project will have a greater cost impact than those that occur in later stages.

True False

57. Risk management is a reactive approach that is designed to ensure that surprises are reduced and that negative consequences associated with undesirable events are minimized.

True False

58. One common mistake that is made early on in the risk identification process is to focus on consequences and not on the events that could produce consequences.

True False

59. The project being delayed is an example of a major risk that should be assessed.

True False

60. The first step in the risk management process is risk assessment.

True False

61. A risk profile is a list of questions that have been developed and refined from previous, similar projects.

True False

62. The risk identification process should be limited to just the core project team.

True False

63. While a "can do" attitude is essential during implementation, project managers have to encourage critical thinking when it comes to risk identification.

True False

64. Responses to all identifiable risks should be a top priority for the project manager.

True False

65. When considering risk value, the lower the value, the higher the level of risk.

True False

66. If, during risk response development, you successfully identify how you will respond to a risk, contingency planning is unnecessary.

True False

67. Adopting proven technology instead of experimental technology is an example of mitigating a risk.

True False

68. A risk is an uncertain event that, if it occurs, can have a positive or negative effect on project objectives.

True False

69. Performance bonds, warranties, and guarantees are financial instruments used to share risk.

True False

70. Fixed-price contracts are an example of transferring risk from an owner to a contractor.

True False

71. When developing a response to a risk by scheduling outdoor work in the summer, investing in up-front safety training, or choosing high-quality materials, these are examples of retaining a risk.

True False

72. Budget reserves are set up to cover identified risks associated with specific segments of a project while management reserves are set up to cover unidentified risks associated with the total project.

True False

73. Change management systems involve reporting, controlling, and recording changes to the project baseline.

True False

74. Enhancing a risk is a tactic that seeks to eliminate the uncertainty associated with an opportunity to ensure that it definitely happens.

True False

75. Contingency funding is made up of budget reserves and management reserves.

True False

76. Describe the relationship between the likelihood of a risk event occurring and the cost of fixing the risk event as a project proceeds through its life cycle.

77. Identify and briefly describe the four steps in the risk management process.

78. What is the difference between mitigating a risk and a contingency plan? Provide real life examples that illustrate the difference.

79. What is the purpose of using tools such as a risk assessment form and a risk severity matrix?

80. Why might an organization be opposed to developing and implementing a thorough risk management process?

81. Give a real life example of mitigating a risk, avoiding a risk, transferring a risk and retaining a risk.

82. What is a "trigger" and why is it important when planning contingencies?

83. Identify and briefly describe the four ways to respond to identified risks.

84. What is the difference between *budget reserves* and *management reserves*?

85. What is Change Control Management and what function does it perform?

86. When considering risk management, what is an opportunity? List and briefly describe 4 different responses to an opportunity.

Chapter 7 Key

1. An uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives is termed a

A. Random chance.
B. Disaster.
C. Risk.
D. Hazard.
E. Bad luck.

In the context of projects, risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #1
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy*

2. The chances of a risk event occurring as a project proceeds through its life cycle tend to

A. Slowly rise.
B. Drop sharply and then level out.
C. Rise sharply and then level out.
D. Remain about the same.
E. Slowly drop.

The chances of a risk event occurring are greatest during the early stages of the project. This is when uncertainty is highest and many questions remain unanswered. As the project progresses toward completion, risk declines as the answers to critical issues are resolved.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #2
Learning Objective: Risk Management Process
Level of Difficulty: 2 Medium*

3. The cost impact of a risk event occurring as a project proceeds through its life cycle tends to

- A.** Slowly rise.
- B. Drop sharply and then level out.
- C. Rise sharply and then level out.
- D. Remain about the same.
- E. Slowly drop.

The cost impact of a risk increases over the life of the project. For example, the risk event of a design flaw occurring after a prototype has been made has a greater cost or time impact than if the flaw were discovered during the planning phase of the project.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #3
Learning Objective: Risk Management Process
Level of Difficulty: 2 Medium*

4. The attempt to recognize and manage potential and unforeseen trouble spots that may occur when a project is implemented is known as

- A. Risk forecasting.
- B.** Risk management.
- C. Contingency planning.
- D. Scenario analysis.
- E. Disaster protection.

Risk management attempts to recognize and manage potential and unforeseen trouble spots that may occur when the project is implemented.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #4
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy*

5. Which of the following is NOT one of the steps in the risk management process?

- A. Risk response development
- B. Risk assessment
- C. Risk identification
- D.** Risk tracking
- E. Risk response control

The four steps in the risk management process are risk identification, risk assessment, risk response development and risk response control.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #5
Learning Objective: Risk Management Process
Level of Difficulty: 2 Medium

6. The initial step in the risk management process is to

- A. Determine the level of acceptable risk.
- B. Assess the risk potential.
- C.** Identify the risks.
- D. Set aside budget funds for managing the risks.
- E. Appoint a risk manager.

The risk management process begins by trying to generate a list of all the possible risks that could affect the project.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Larson - Chapter 07 #6
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

7. One common mistake made early in the risk identification process is to

- A. Not consider all possibilities
- B. Encourage participants be over optimistic
- C. Support participants being over pessimistic
- D.** Focus on consequences and not on the events that could produce consequences
- E. Give too much attention to past events

One common mistake that is made early in the risk identification process is to focus on consequences and not on the events that could produce consequences.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

8. Organizations use _____ in conjunction with work breakdown structures to help management teams identify and eventually analyze risk.

- A. Risk breakdown structures
- B. Contingency breakdown structures
- C. Scenario analysis
- D. Organizational breakdown structure
- E. Risk assessment

Organizations use risk breakdown structures in conjunction with work breakdown structures to help management teams identify and eventually analyze risk. The focus at the beginning should be on risks that can affect the whole project as opposed to a specific section of the project or network.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #8
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium

9. Which of the following groups should NOT be a part of the risk identification process?

- A. Project team
- B. Customers
- C. Subcontractors
- D. Vendors
- E. All of these groups can be included in the risk identification process

The risk identification process should not be limited to just the core team. Input from customers, sponsors, subcontractors, vendors and other stakeholders should be solicited. Relevant stakeholders can be formally interviewed or included on the risk management team.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #9
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium

10. After your team has successfully identified potential risks that could affect the project, what is the next step?

- A. Create a risk breakdown structure
- B. Assess identified risks**
- C. Create contingency plans
- D. Decide how to respond to all risks
- E. Mitigate risks

After risks have been identified, not all of them deserve attention. Managers have to develop methods for sifting through the list of risks, eliminating inconsequential or redundant ones and stratifying worthy ones in terms of importance and need for attention. This is risk assessment.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #10
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

11. A list of questions that address traditional areas of uncertainty on a project is termed a

- A. Risk profile.**
- B. Questionnaire.
- C. Research matrix.
- D. Query.
- E. Checklist.

A risk profile is a list of questions that address traditional areas of uncertainty on a project. These questions have been developed and refined from previous, similar projects.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Larson - Chapter 07 #11
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 1 Easy*

12. _____ focuses on how to respond to events that have a positive impact on a project.

- A. Risk management
- B. Opportunity management**
- C. Value management
- D. Contingency management
- E. Prospect management

An opportunity is an event that can have a positive impact on project objectives. Essentially the same process that is used to manage negative risks is applied to positive risks. Opportunities are identified, assessed in terms of likelihood and impact, responses are determined and even contingency plans and funds can be established to take advantage of the opportunity if it occurs.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #12
Learning Objective: Opportunity Management
Level of Difficulty: 1 Easy*

13. Tools such as a risk assessment form and a risk severity matrix are used to

- A. Identify risks.
- B. Control risks.
- C. Assess risks.**
- D. Regulate risks.
- E. Respond to risks.

A risk assessment form, a risk severity matrix and a probability analysis are all ways to assess risk. After the risk assessment you will know which risks need most attention.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #13
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 1 Easy*

14. Based on the following, which event should you be most concerned about?

Risk Event	Likelihood	Impact
Bad weather	2	3
Design flaw	3	5
Accident	1	5
Shipment delay	2	2
Power outage	1	5

- A. Bad weather
- B. Design flaw**
- C. Accident
- D. Shipment delay
- E. Power outage

Bad weather has a risk severity of 6, design flaw 15, accident 5, shipment delay 4 and power outage 5. Based on this, the event you should be most concerned about is a design flaw.

AACSB: Reflective Thinking
Blooms: Apply
Larson - Chapter 07 #14
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium

15. _____ is a measure of how easy it would be to notice that a risk event was going to occur in time to take mitigating action, that is, how much warning you would have.

- A. Detection difficulty**
- B. Impact scaling
- C. Probability analysis
- D. Awareness level
- E. Warning assessment

Detection difficulty is a measure of how easy it would be to detect that the event was going to occur in time to take mitigating action.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #15
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium

16. Purchasing an accident insurance policy would be an example of responding to a risk by _____ it.

- A. Mitigating
- B. Retaining
- C. Ignoring
- D.** Transferring
- E. Avoiding

Purchasing an accident insurance policy is an example of transferring risk.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #16
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

17. The risk management tool that is divided into three color-coded zones representing major, moderate, and minor risks is the risk

- A. Assessment form.
- B. Responsibility matrix.
- C. Scenario assessment.
- D. Impact assessment.
- E.** Severity matrix.

The risk severity matrix provides a basis for prioritizing which risks to address. Red zone risks receive first priority followed by yellow zone risks. Green zone risks are typically considered inconsequential and ignored unless their status changes.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #17
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

18. The risk assessment form contains all of the following EXCEPT

- A. Likelihood of the risk event occurring.
- B. Potential impact of the risk event.
- C. Who will detect the occurrence of the risk event.
- D. Difficulty of detecting the occurrence of the risk event.
- E. When the risk event may occur.

In addition to evaluating the severity and probability of risk events the team also assesses when the event might occur and its detection difficulty.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Larson - Chapter 07 #18
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

19. Risks are evaluated in terms of

- A. Likelihood and cost.
- B. Cost and schedule.
- C. Impact and cost.
- D. Time and impact.
- E. Likelihood and impact.

Risk management team members assess the significance of each risk event in terms of the probability or likelihood that the risk will occur and the impact of the event.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #19
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

20. Adopting proven technology instead of experimental technology in order to eliminate technical failure would be an example of which risk response?

- A. Mitigating
- B. Retaining
- C. Ignoring
- D. Transferring
- E. Avoiding**

Although it is impossible to eliminate all risk events, some specific risks may be avoided before you launch the project. Adopting proven technology instead of experimental technology in order to eliminate technical failure would be an example of avoiding risk.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #20
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

21. Which of the following activities might you consider adding a time buffer to?

- A. Activities with severe risks
- B. Merge activities that are prone to delays
- C. Activities with scarce resources
- D. Noncritical activities with very little slack
- E. You might consider adding a time buffer to any of these activities**

Just as contingency funds are established to absorb unplanned costs, managers use time buffers to cushion against potential delays in the project. And like contingency funds, the amount of time is dependent upon the inherent uncertainty of the project. You might consider adding a time buffer to any of these activities.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #21
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 2 Medium*

22. Which of the following is NOT included in a Failure Mode and Effects Analysis?

- A. Impact
- B. Probability
- C. Detection
- D. Risk value
- E. All of these are included**

Failure Mode and Effects Analysis (FMEA) extends the risk severity matrix by including ease of detection in the equation: $\text{Impact} \times \text{Probability} \times \text{Detection} = \text{Risk Value}$.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Larson - Chapter 07 #22
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

23. A fixed price contract is an example of

- A. Avoiding risk.
- B. Transferring risk.**
- C. Accepting risk.
- D. Ignoring risk.
- E. Mitigating risk.

Fixed price contracts are the classic example of transferring risk from an owner to a contractor.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #23
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

24. Which of the following is NOT one of the potential responses to a specific risk event?

- A. Mitigating
- B. Retaining
- C. Ignoring**
- D. Transferring
- E. Avoiding

When a risk event is identified and assessed, a decision must be made concerning which response is appropriate for the specific event. Responses to risk can be classified as mitigating, avoiding, transferring, or retaining.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember*

25. A Risk Response Matrix contains all of the following EXCEPT

- A. Contingency plan.
- B. Trigger.
- C. Who is responsible.
- D. Response.
- E.** When the risk will occur.

A risk response matrix will contain the risk event, the immediate response to that event, the contingency plan if that event were to occur despite our efforts to mitigate, avoid, transfer, the trigger, and who is responsible for putting that contingency plan into motion.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #25
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium

26. A key distinction between a risk response and a contingency plan is

- A. A risk response is established only for moderate risks while contingency plans are established for major risks.
- B.** A risk response is part of the actual implementation plan and action is taken before the risk can materialize, while a contingency plan goes into effect only after the risk has transpired.
- C. A risk response is only effective when you are able to assess the likelihood of the risk and its impact on the project; all other risks are covered by contingency planning.
- D. A risk response is created by the project team and the project manager while the project manager and the customer agree on the contingency plan.
- E. A risk response is action that is the response to a risk once it has happened and the contingency plan is created by the customer if the risk response fails.

A key distinction between a risk response and a contingency plan is that a response is part of the actual implementation plan and action is taken before the risk can materialize, while a contingency plan is not part of the initial implementation plan and goes into effect only after the risk is recognized.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #26
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium

27. The risk associated with the unlikelihood that one of the key members will be struck by lightning would most likely be handled by which of the following?

- A. Mitigating
- B. Retaining**
- C. Ignoring
- D. Transferring
- E. Avoiding

The risk of a project manager being struck by lightning at a work site would have major negative impact on the project, but the likelihood is so low it is not worthy of consideration. Conversely, people do change jobs, so an event like the loss of key project personnel would have not only an adverse impact but also a high likelihood of occurring in some organizations. If so, then it would be wise for that organization to be proactive and mitigate this risk by developing incentive schemes for retaining specialists and/or engaging in cross-training to reduce the impact of turnover.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #27
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium

28. Funds that are for identified risks that have a low probability of occurring and that decrease as the project progresses are called _____ reserves.

- A. Management
- B. Budget**
- C. Contingency
- D. Padded
- E. Just in case

Budget reserves are set up to cover identified risks; these reserves are those allocated to specific segments or deliverables of the project.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #28
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 2 Medium

29. Risks that can result in a system or process that will not work are known as

- A.** Technical risks.
- B. Funding risks.
- C. Schedule risks.
- D. Cost risks.
- E. Unnecessary risks.

Technical risks are problematic; they can often be the kind that cause the project to be shut down.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #29
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium*

30. Which of the following is NOT involved in risk control?

- A. Executing the risk response strategy
- B. Initiating contingency plans
- C. Establishing a change control system
- D.** Establishing contingency funds
- E. Watching for new risks

Risk control involves executing the risk response strategy, monitoring triggering events, initiating contingency plans, and watching for new risks. Establishing a change management system to deal with events that require formal changes in the scope, budget, and/or schedule of the project is an essential element of risk control.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #30
Learning Objective: Step 4: Risk Response Control
Level of Difficulty: 2 Medium*

31. Which of the following is identified to cover major unforeseen risks and, hence, are applied to the total project?

- A. Project reserves
- B. Management reserves**
- C. Time buffers
- D. Activity reserves
- E. Budget reserves

Management reserve funds are needed to cover major unforeseen risks and, hence, are applied to the total project.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #31
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 2 Medium

32. Change management systems are designed to accomplish all of the following EXCEPT

- A. Track all changes that are to be implemented.
- B. Review, evaluate, and approve/disapprove proposed changes formally.
- C. Identify expected effects of proposed changes on schedule and budget.
- D. Reflect scope changes in baseline and performance measures.
- E. All of these are examples of what change management systems are designed to accomplish.**

Most change management systems are designed to identify proposed changes, list expected effects of proposed changes on schedule and budget, review, evaluate and approve or disapprove changes formally, negotiate and resolve conflicts of change, conditions and cost, communicate changes to parties affected, assign responsibility for implementing changes, adjust master schedule and budget, and track all changes that are to be implemented.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #32
Learning Objective: Change Control Management
Level of Difficulty: 2 Medium

33. An uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives is known as a _____.

risk

In the context of projects, a risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on project objectives. A risk has a cause and, if it occurs, a positive or negative consequence.

AACSB: Reflective Thinking
Blooms: Remember
Larson - Chapter 07 #33
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

34. The likelihood of a risk event occurring _____ as a project goes through its life cycle.

decreases

The chances of a risk event occurring are greatest during the early stages of a project. This is when uncertainty is highest and many questions remain unanswered. As the project progresses toward completion risk declines as the answers to critical issues are resolved.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #34
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

35. The first step in the risk management process is _____.

risk identification

The four steps in the risk management process are risk identification, risk assessment, risk response development, and risk response control.

AACSB: Reflective Thinking
Blooms: Remember
Larson - Chapter 07 #35
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

36. The significance of a risk is assessed in terms of the _____ and the impact of the event.

likelihood

Team members assess the significance of each risk event in terms of the probability of the event and the impact of the event.

AACSB: Reflective Thinking
Blooms: Remember
Larson - Chapter 07 #36
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium

37. A list of questions that address traditional areas of uncertainty on a project is known as a _____.

risk profile

A risk profile is a list of questions that address traditional areas of uncertainty on a project.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #37
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium*

38. The measurement of how easy it would be to detect that the event was going to occur in time to take mitigating action is known as _____.

detection difficulty

Detection difficulty is a measure of how easy it would be to detect that the event was going to occur in time to take mitigating action, that is, how much warning we would have.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #38
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 3 Hard*

39. The _____ form identifies each risk event, the likelihood of it occurring, the potential impact, when it may occur, and the degree of difficulty in detecting it.

risk assessment

The risk assessment form is a tool used to measure the likelihood that a risk event will occur, the impact of the risk and how difficult it will be to detect.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #39
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

40. The _____ matrix is divided into red, yellow, and green zones representing major, moderate, and minor risks.

risk severity

The risk severity matrix provides a basis for prioritizing which risks to address. Red zone risks receive first priority followed by yellow zone risks. Green zone risks are typically considered inconsequential and ignored unless their status changes.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #40
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

41. According to the Failure Mode and Effects Analysis (FMEA), $\text{Impact} \times \text{Probability} \times \text{Detection} =$ _____.

Risk Value

Failure Mode and Effects Analysis (FMEA) extends the risk severity matrix by including ease of detection in the equation: $\text{Impact} \times \text{Probability} \times \text{Detection} = \text{Risk Value}$.

*AACSB: Reflective Thinking
Blooms: Remember
Larson - Chapter 07 #41
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

42. When considering risk response development, reducing the likelihood that an event will occur and/or reducing the impact that an adverse event would have on a project is known as _____ the risk.

mitigating

Reducing risk is usually the first alternative considered. There are basically two strategies for mitigating risk: (1) reduce the likelihood that the event will occur and/or (2) reduce the impact that the adverse event would have on the project.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #42
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

43. When considering risk response development, changing the plan to eliminate the risk or condition is known as _____ the risk.

avoiding

Risk avoidance is changing the project plan to eliminate the risk or condition.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #43
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

44. When considering risk response development, passing risk to another party instead of changing it is known as _____ the risk.

transferring

Passing risk to another party is common; this transfer does not change risk. Passing risk to another party almost always results in paying a premium for this exemption.

*AACSB: Reflective Thinking
Blooms: Understand*

45. When considering risk response development, assuming the risk because the chance of such an event is slim is known as _____ the risk.

retaining

Some risks are so large it is not feasible to consider transferring or reducing the event. The project owner assumes the risk because the chance of such an event occurring is slim.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #45
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

46. Testing a new project on a smaller isolated area prior to installing it for the entire organization is an example of _____ a risk.

mitigating

Reducing risk is usually the first alternative considered. There are basically two strategies for mitigating risk: (1) reduce the likelihood that the event will occur and/or (2) reduce the impact that the adverse event would have on the project. Most risk teams focus first on reducing the likelihood of risk events since, if successful, this may eliminate the need to consider the potentially costly second strategy.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #46
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

47. Performance bonds, warranties, and insurance are examples of _____ a risk.

transferring

Passing risk to another party is common; this transfer does not change risk. Passing risk to another party almost always results in paying a premium for this exemption. Fixed-price contracts are the classic example of transferring risk from an owner to a contractor.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #47
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

48. Choosing to move a concert indoors to eliminate the threat of bad weather is an example of _____ a risk.

avoiding

Risk avoidance is changing the project plan to eliminate the risk or condition.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #48

Learning Objective: Step 3: Risk Response Development

Level of Difficulty: 2 Medium

49. Flooding would be devastating to the project; however, it is very unlikely. The project manager is most likely to _____ this risk.

retain

Some risks are so large it is not feasible to consider transferring or reducing the event (e.g., an earthquake or flood). The project owner assumes the risk because the chance of such an event occurring is slim.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #49

Learning Objective: Step 3: Risk Response Development

Level of Difficulty: 2 Medium

50. The event or point in time when a contingency plan will be implemented is called a _____.

trigger

The risk management team will also need to discuss and agree on what would "trigger" implementation of the contingency plan.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #50

Learning Objective: Contingency Planning

Level of Difficulty: 3 Hard

51. _____ reserves are identified for specific work packages and are distributed by the project manager and the team members.

Budget

These reserves are identified for specific work packages or segments of a project found in the baseline budget or work breakdown structure. For example, a reserve amount might be added to "computer coding" to cover the risk of "testing" showing a coding problem. The reserve amount is determined by costing out the accepted contingency or recovery plan. The budget reserves should be communicated to the project team.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #51
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 2 Medium*

52. _____ reserves are controlled by the project manager and the owner of the project and are used to cover major unforeseen risks to the entire project.

Management

These reserve funds are needed to cover major unforeseen risks and, hence, are applied to the total project. For example, a major scope change may appear necessary midway in the project.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #52
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 2 Medium*

53. A _____ is an alternative that will be used if a possible foreseen risk event becomes a reality.

contingency plan

A contingency plan is an alternative plan that will be used if a possible foreseen risk event becomes a reality.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #53
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium*

54. _____ systems involve reporting, controlling, and recording changes to the project baseline.

Change management

Because change is inevitable, a well-defined change review and control process should be set up early in the project planning cycle. Change management systems involve reporting, controlling, and recording changes to the project baseline.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #54
Learning Objective: Change Control Management
Level of Difficulty: 2 Medium

55. The probability that a risk event will occur is higher during the initial stages of a project.

TRUE

The chances of a risk event occurring (e.g., an error in time estimates, cost estimates, or design technology) are greatest in the concept, planning, and start-up phases of the project.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #55
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

56. Risk events that occur in the early stages of a project will have a greater cost impact than those that occur in later stages.

FALSE

The cost impact of a risk event in the project is less if the event occurs earlier rather than later.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #56
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy

57. Risk management is a reactive approach that is designed to ensure that surprises are reduced and that negative consequences associated with undesirable events are minimized.

FALSE

Risk management is a proactive approach that is designed to ensure that surprises are reduced and that negative consequences associated with undesirable events are minimized.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #57

58. One common mistake that is made early on in the risk identification process is to focus on consequences and not on the events that could produce consequences.

TRUE

One common mistake that is made early in the risk identification process is to focus on consequences and not on the events that could produce consequences. Only by focusing on actual events can potential solutions be found.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #58
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium*

59. The project being delayed is an example of a major risk that should be assessed.

FALSE

The project being delayed is an example of a consequence and not the event that resulted in the consequence.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Larson - Chapter 07 #59
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 3 Hard*

60. The first step in the risk management process is risk assessment.

FALSE

The first step in the risk management process is risk identification. Risk assessment is the second step.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #60
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 1 Easy*

61. A risk profile is a list of questions that have been developed and refined from previous, similar projects.

TRUE

A risk profile is a list of questions that address traditional areas of uncertainty on a project. These questions have been developed and refined from previous, similar projects.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #61
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium*

62. The risk identification process should be limited to just the core project team.

FALSE

The risk identification process should not be limited to just the core team. Input from customers, sponsors, subcontractors, vendors, and other stakeholders should be solicited.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #62
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium*

63. While a "can do" attitude is essential during implementation, project managers have to encourage critical thinking when it comes to risk identification.

TRUE

One of the keys to success in risk identification is attitude. While a "can do" attitude is essential during implementation, project managers have to encourage critical thinking when it comes to risk identification. The goal is to find potential problems before they happen.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #63
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 1 Easy*

64. Responses to all identifiable risks should be a top priority for the project manager.

FALSE

Risk identification produces a list of potential risks. Not all of these risks deserve attention. Some risks are trivial and can be ignored, while others pose serious threats to the welfare of the project. Risk assessment will assess the risk identified and help determine which risks need an immediate response.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #64
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

65. When considering risk value, the lower the value, the higher the level of risk.

FALSE

Failure Mode and Effects Analysis (FMEA) extends the risk severity matrix by including ease of detection in the equation: $\text{Impact} \times \text{Probability} \times \text{Detection} = \text{Risk Value}$. The higher the risk value, the higher the level of risk.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #65
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

66. If, during risk response development, you successfully identify how you will respond to a risk, contingency planning is unnecessary.

FALSE

The contingency plan represents actions that will reduce or mitigate the negative impact of the risk event. A key distinction between a risk response and a contingency plan is that a response is part of the actual implementation plan and action is taken before the risk can materialize, while a contingency plan is not part of the initial implementation plan and goes into effect only after the risk is recognized. Both are necessary.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #66
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

67. Adopting proven technology instead of experimental technology is an example of mitigating a risk.

FALSE

Adopting proven technology instead of experimental technology is an example of avoiding risk.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #67
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

68. A risk is an uncertain event that, if it occurs, can have a positive or negative effect on project objectives.

TRUE

A risk is an uncertain event that, if it occurs, can have positive or negative effect on project objectives. A positive risk is known as an opportunity.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #68
Learning Objective: Opportunity Management
Level of Difficulty: 1 Easy

69. Performance bonds, warranties, and guarantees are financial instruments used to share risk.

FALSE

Performance bonds, warranties, and guarantees are financial instruments used to transfer risk.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #69
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

70. Fixed-price contracts are an example of transferring risk from an owner to a contractor.

TRUE

Fixed-price contracts are the classic example of transferring risk from an owner to a contractor.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #70
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

71. When developing a response to a risk by scheduling outdoor work in the summer, investing in up-front safety training, or choosing high-quality materials, these are examples of retaining a risk.

FALSE

An example of reducing the probability of risks occurring (mitigating) are scheduling outdoor work during the summer months, investing in up-front safety training, and choosing high-quality materials and equipment.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #71
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium*

72. Budget reserves are set up to cover identified risks associated with specific segments of a project while management reserves are set up to cover unidentified risks associated with the total project.

TRUE

Budget reserves are set up to cover identified risks; these reserves are those allocated to specific segments or deliverables of the project. Management reserves are set up to cover unidentified risks and are allocated to risks associated with the total project.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #72
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 1 Easy*

73. Change management systems involve reporting, controlling, and recording changes to the project baseline.

TRUE

Change management systems involve reporting, controlling, and recording changes to the project baseline. (Note: Some organizations consider change control systems part of configuration management.)

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #73
Learning Objective: Change Control Management
Level of Difficulty: 1 Easy*

74. Enhancing a risk is a tactic that seeks to eliminate the uncertainty associated with an opportunity to ensure that it definitely happens.

FALSE

Exploiting a risk is a tactic that seeks to eliminate the uncertainty associated with an opportunity to ensure that it definitely happens. Enhancing a risk is taking action to increase the probability and/or the positive impact of an opportunity.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #74
Learning Objective: Opportunity Management
Level of Difficulty: 3 Hard*

75. Contingency funding is made up of budget reserves and management reserves.

TRUE

In practice, the contingency reserve fund is typically divided into budget and management reserve funds for control purposes.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Larson - Chapter 07 #75
Learning Objective: Contingency Funding and Time Buffers
Level of Difficulty: 1 Easy*

76. Describe the relationship between the likelihood of a risk event occurring and the cost of fixing the risk event as a project proceeds through its life cycle.

Answer will vary

Feedback: In the early stages of the project life cycle the probability of a risk event occurring is greater than at any other time and the cost to fix it is lower than at any other point. As time passes the probability of occurrence drops lower and lower while the cost rises.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #76
Learning Objective: Risk Management Process
Level of Difficulty: 1 Easy*

77. Identify and briefly describe the four steps in the risk management process.

Answer will vary

Feedback: (1) Risk Identification-all possible risks are identified; (2) Risk Assessment-risks are assessed in terms of importance and need for attention; (3) Risk Response Development-plans are developed to respond if the risk actually occurs; (4) Risk Response Control-the actual response to the risk and controlling changes associated with the risks.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #77
Learning Objective: Step 1: Risk Identification
Level of Difficulty: 2 Medium*

78. What is the difference between mitigating a risk and a contingency plan? Provide real life examples that illustrate the difference.

Answer will vary

Feedback: The key distinction between a risk response or, for example, mitigating a risk, and a contingency plan is that a response is part of the actual implementation plan and action is taken before the risk can materialize, while a contingency plan is not part of the initial implementation plan and goes into effect only after the risk is recognized.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #78
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium*

79. What is the purpose of using tools such as a risk assessment form and a risk severity matrix?

Answer will vary

Feedback: These tools are used to assess risk. After risk identification there are many risks that are trivial and can be ignored. The risk assessment form and risk severity matrix help assess the probability of the event occurring and the impact of the event on the project. After assessment, responses are developed only for risks that pose serious threats to the welfare of the project.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #79
Learning Objective: Step 2: Risk Assessment
Level of Difficulty: 2 Medium*

80. Why might an organization be opposed to developing and implementing a thorough risk management process?

Answer will vary

Feedback: Managing risk takes time and money, which may deter organizations from implementing a management process. Organizational culture may also play a role in how much an organization values risk management.

AACSB: Analytic
Blooms: Analyze
Larson - Chapter 07 #80
Learning Objective: Risk Management Process
Level of Difficulty: 3 Hard

81. Give a real life example of mitigating a risk, avoiding a risk, transferring a risk and retaining a risk.

Answer will vary

Feedback: Mitigating a risk: duplicate systems, backup systems, alternate technology development. Avoiding a risk: moving a concert indoors to avoid potential negative weather conditions. Transferring risk: fixed-price contract, insurance. Retaining risk: accept the risk of a lighting strike because the likelihood is so low.

AACSB: Analytic
Blooms: Apply
Larson - Chapter 07 #81
Learning Objective: Step 3: Risk Response Development
Level of Difficulty: 2 Medium

82. What is a "trigger" and why is it important when planning contingencies?

Answer will vary

Feedback: A trigger is an event or point in time when the contingency plan will be implemented. It is not only important to know what you will do if a risk event actually occurs but at what point will it be implemented. This discourages implementing the plan too soon or waiting too long and potentially increasing the negative impact of the risk.

AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #82
Learning Objective: Contingency Planning
Level of Difficulty: 2 Medium

83. Identify and briefly describe the four ways to respond to identified risks.

Answer will vary

Feedback: (1) Mitigate the risk-involves reducing the likelihood that the event will occur and/or reducing the impact that the adverse event would have on the project; (2) Avoid the risk-changing the project plan to eliminate the risk; (3) Transfer the risk-passing a risk to another party; (4) Retain the risk-making a conscious decision to accept the risk of an event occurring.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #83

Learning Objective: Step 3: Risk Response Development

Level of Difficulty: 2 Medium

84. What is the difference between *budget reserves* and *management reserves*?

Answer will vary

Feedback: Budget reserves are controlled by team participants and have been identified for known risks that have a low chance of occurring and are directly associated with specific work packages. Management reserves are controlled by the project manager and the project "owner" and cover items which were unforeseen usually at the total project level.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #84

Learning Objective: Contingency Funding and Time Buffers

Level of Difficulty: 2 Medium

85. What is Change Control Management and what function does it perform?

Answer will vary

Feedback: Change Control Management is the formal process for making and tracking changes once a project has started. Any changes must be detailed and accepted by the project team. Risks associated with making changes are thus assessed and documented.

AACSB: Reflective Thinking

Blooms: Understand

Larson - Chapter 07 #85

Learning Objective: Change Control Management

Level of Difficulty: 3 Hard

86. When considering risk management, what is an opportunity? List and briefly describe 4 different responses to an opportunity.

Answer will vary

Feedback: An opportunity is an event that can have a positive impact on project objectives. One can exploit an opportunity or seek to eliminate the uncertainty associated with it, share an opportunity or allocate some ownership of an opportunity to another party who is best capable of capturing it, enhance the opportunity or increase the probability and/or positive impact of an opportunity, or accept the opportunity by taking advantage of it if it occurs, but not pursue it.

*AACSB: Reflective Thinking
Blooms: Understand
Larson - Chapter 07 #86
Learning Objective: Opportunity Management
Level of Difficulty: 3 Hard*

Chapter 7 Summary

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