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Chapter 2

Multiple Choice

1. The mastery of the skills required to manage projects competently is referred to in the literature as _____.
a) project management conformance
b) project management maturity
c) project success
d) project portfolio management

Ans: b
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 32

2. There is usually some oversight committee, typically called a _____ or such, for every project, of which the project owner is usually a member.
a) task force
b) steering committee
c) project management office
d) project council

Ans: b
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 32

3. _____ is the process of evaluating individual projects or groups of projects, and then choosing to implement some set of them so that the objectives of the parent organization will be achieved.
a) Project selection
b) Project initiation
c) Project management
d) Project control

Ans: a
Section Reference: 2.2 Project Selection Criteria and Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 34

4. The two basic types of project selection models identified in the text are _____.
a) biased and unbiased
b) numeric and nonnumeric
c) active and passive

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d) numeric and qualitative

Ans: b
Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Comprehension
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Page: 35

5. A project selected using the sacred cow model is likely to be maintained until successfully completed or until _____.
a) the project exceeds its budget
b) the project falls behind schedule
c) the boss recognizes the project as a failure and terminates it
d) the project manager is terminated

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 35

6. The Åstebro study (2004) of R&D projects found that all the characteristics below were excellent predictors of project commercial success, except _____.
a) technological opportunity
b) managerial support
c) expected profitability
d) development risk

Ans: b
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Communication
Page: 35

7. A project selection criteria that focuses on how well new products would fit the firm's existing product line would be
a) sustainability
b) comparative benefit model
c) production line extension
d) operating necessity

Ans: c
Level: Easy
Selection Reference: 2.2 Project Selection Models
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8. If a system is being updated due to operating necessity, the project was selected because_____.
a) the system is worth saving at any cost
b) the system is worth saving at the estimated cost of the project
c) the dimension of cost is not relevant to execution of the project
d) the cost overruns can be hidden in someone else's budget

Ans: b
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 36

9. For a project selected using nonnumeric models, identify the true statement regarding relative priorities for project selection.
a) Operating necessity projects have priority over competitive necessity projects.
b) Competitive necessity projects have priority over operating necessity projects.
c) Operating necessity and competitive necessity projects have equal priority.
d) Product line extension projects have priority over operating necessity projects.

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 36

10. A project selection criteria that focuses on environmental and social issues is
a) sustainability
b) comparative benefit model
c) production line extension
d) operating necessity

Ans: a
Level: Intermediate
Selection Reference: 2.2 Project Selection Models
Bloom's: Comprehension
AACSB: Diversity
Page: 37

11. The drawback of the _____ model is that it fails to consider cash flows obtained once the initial investment has been recovered.
a) payback period
b) average rate of return
c) discounted cash flow
d) profitability index

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Intermediate

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AACSB: Analysis
Page: 38

12. Which of the following is a type of numeric model?
a) the sacred cow
b) the operating necessity
c) payback period
d) the product line extension

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 38

13. A small project has a cost of $12,000 to implement and is expected to have annual cash flows of $3,000. What is its payback period?
a) One year
b) Two years
c) Three years
d) Four years

Ans: d
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Application
AACSB: Analysis
Page: 38

14. The _____ is the interest rate set by an organization as the minimum acceptable rate of return for a project.
a) hurdle rate
b) acceptable rate
c) internal rate of return
d) net present value

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 38

15. If a company raises their hurdle rate, what happens to the net present value (NPV) of their projects?
a) Goes up
b) Unchanged
c) Goes down
d) Positive NPV's go up, negative NPV's go down

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Ans: c
Section Reference: 2.2 Project Selection Models
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Page: 38

16. If a company predicted rate of inflation goes down (deflation), what happens to the net present value (NPV) of their projects?
a) Goes up
b) Unchanged
c) Goes down
d) Positive NPV's go up, negative NPV's go down

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 38

17. The _____is the value of an opportunity foregone.
a) real option
b) profit
c) opportunity cost
d) revenue

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 39-40

18. If the NPV for a project is < 0, it indicates that the project will _____.
a) report a profit loss
b) report a profit gain
c) fail to cover its required rate of return
d) fail to generate cash inflows

Ans: c
Section Reference: 2.2 Project Selection Models
Level: advanced
Bloom's: Application
Page: 39

19. The underlying premise of the real options approach is that _____.
a) delaying an investment may lead to greater returns or may lead to elimination of marginal projects

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b) rushing into an investment more quickly may lead to lower returns or may lead to elimination of marginal projects
c) delaying an investment may lead to increased costs due to delays
d) rushing into an investment more quickly may lead to less risk

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Comprehension
AACSB: Analysis
Page: 39

20. Which of the following is not an advantage of the discounted cash flow approach to project selection?
a) Simple to use and understand
b) The accounting data is usually available
c) The accounting data is possibly inaccurate
d) They can be adjusted to account for project risk

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 39

21. Which of the following is not a disadvantage of the discounted cash flow approach to project selection?
a) It cannot account for project risk
b) It ignores all nonmonetary factors
c) It is strongly biased toward short-term solutions
d) It is highly sensitive to data errors in the early years of a project

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 39

22. Project Typhoon has a net present value of $10,000 and a profitability index of 1.01. Project Cyclone has a net present value of $10,000 and a profitability index of 1.10. Project Surf'sUp has a net present value of $10,000 and a profitability index of 1.05. If only one project could be undertaken, the organization should select _____.
a) Project Typhoon
b) Project Cyclone
c) Project Surf'sUp
d) Not enough information is provided

Ans: b
Section Reference: 2.2 Project Selection Models

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Level: advanced
Bloom's: Analysis
AACSB: Analysis
Page: 39

23. The discounted cash flow method determines the net present value of all cash flows by discounting them by the _____.
a) hurdle rate
b) acceptable rate
c) internal rate of return
d) net present value

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Knowledge
AACSB: Analysis
Page: 39

24. Occasionally, organizations will approve projects that are forecast to lose money when fully costed and sometimes even when only direct costed. Which of the following is not a good reason for doing this.
a) Acquire knowledge concerning a specific or new technology
b) Get the organization's "foot in the door"
c) Improve their competitive position
d) They plan on cutting corners on work and material, or forcing subsequent contract changes to make up the cost

Ans: d
Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Knowledge
AACSB: Analysis
Page: 40-41

25. Scoring models are most often used to overcome this disadvantage of profitability models.
a) The inability to account for the time value of money.
b) The inability to account for project results beyond the payback period.
c) The inability to account for multiple decision criteria.
d) The inability to account for cash flow.

Ans: c
Section Reference: 2.3 Project Selection Models
Level: Intermediate
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Page: 41

26. Real options seek to reduce which of the following risks in projects?
a) political

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b) environmental
c) technological and commercial
d) sociological

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
Page: 41

27. A technique useful for developing numeric values that are equivalent to subjective, verbal measures of relative value is the _____.
a) Delphi system
b) expert system
c) portfolio
d) simulation

Ans: a
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 41

28. A project has four criteria, represented by A-D. There weights are 0.1, 0.2, 0.4, and 0.3. A particular project has scores of 4, 5, 8, and 9 respectively. What is its total score for the project?
a) 6.5
b) 7.1
c) 7.3
d) 26

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Knowledge
AACSB: Analysis
Page: 41

29. Which of the following is not an advantage that favors the use of weighted scoring models?
a) Multiple objectives can be considered.
b) Decision makers are compelled to stick with the decision once it has been made.
c) The models can be adapted to changes in managerial philosophy.
d) They can help avoid a short-term focus on profitability.

Ans: b
Section Reference: 2.2 Project Selection Models
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Page: 44

30. Which of the following is not a disadvantage that favors the use of weighted scoring models?
a) Scores are relative measures
b) Easy to include too many factors
c) Can handle non-numeric criteria
d) Can only include profits in a non-numeric fashion

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 44

31. Which of the following demonstrates the quality of realism required of a project selection model?
a) It does not require special interpretation, data that are difficult to acquire, or excessive personnel.
b) It gives valid results within the range of conditions that the firm might experience.
c) It reflects the multiple objectives of both the firm and its managers.
d) It deals with situations both internal and external to the project.

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Easy
Bloom's: Comprehension
AACSB: Analysis
Page: 45-46

32. Financial forecasts are reported as _____ financial statements.
a) final
b) initial
c) pro forma
d) hypothetical

Ans: c
Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Comprehension
AACSB: Analysis
Page: 46-47

33. When the decision maker's information is not complete, he/she will have to make a decision under conditions of _____.
a) proof
b) uncertainty
c) management
d) risk mitigation

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Ans: b
Section Reference: 2.2 Project Selection Models
Level: Intermediate
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Page: 47

34. _____ is a modeling technique for emulating a process, usually conducted a considerable number of times to understand the process better and measure its outcomes under different policies.
a) Simulation
b) Project management
c) Projectizing
d) Modeling

Ans: a
Level: Easy
Selection Reference: 2.2 Project Selection Models
Bloom's: Comprehension
AACSB: Analysis
Page: 47

35. Firms usually have two or more projects and this collection of projects is referred to as _____.
a) a portfolio
b) an initiation
c) a program
d) a stochastic model

Ans: a
Section Reference: 2.3 Project Portfolio Management (PPM)
Level: Easy
Bloom's: Knowledge
AACSB: Communication
Page: 48

36. According to research by Sanchez and Robert (2010), which of the following is not a reason why strategic benefits may be difficult to appraise?
a) Not immediately realized
b) Difficult to quantify
c) May be confounded with other factors
d) Easy to plan for when they occur

Ans: d
Level: Easy
Selection Reference: 2.3 Project Portfolio Management (PPM)
Bloom's: Comprehension
AACSB: Analysis
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37. Which of the following should not be members of the project council?

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a) Senior management
b) Accounting department
c) Project owners or sponsors of major projects
d) Head of the project management office

Ans: b
Level: Easy
Selection Reference: 2.3 Project Portfolio Management (PPM)
Bloom's: Comprehension
AACSB: Communication
Page: 50

38. In a project portfolio, _____ projects have objectives or deliverables that are only incrementally different in both product and process from existing offerings.
a) breakthrough
b) R&D
c) platform
d) derivative

Ans: d
Section Reference: 2.3 Project Portfolio Management (PPM)
Level: Intermediate
Bloom's: Knowledge
AACSB: Analysis
Page: 51

39. Wheelwright identified four separate categories of projects. Which of the following are not one of those categories?
a) Sacred cow projects
b) Platform projects
c) Breakthrough projects
d) R&D projects

Ans: a
Section Reference: 2.3 Project Portfolio Management (PPM)
Level: Intermediate
Bloom's: Knowledge
AACSB: Analysis
Page: 51-52

40. In a project portfolio, a project that involves a new technology or even a disruptive technology that is known to the industry would serve as an example of a _____ project.
a) breakthrough
b) R&D
c) platform
d) derivative

Ans: a
Section Reference: 2.3 Project Portfolio Management (PPM)
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Essay

41. Suppose that you have been assigned as the project manager to execute a project that was selected using the sacred cow method of project selection. The project sponsor is an executive who has been with the company for three years. Based on past employment history, the average tenure of a senior executive at your company is 5 years. After reviewing the project's expectations and requirements, the project team has determined that the payback period will be 3.5 years. What are the implications for you and the project team?

Ans: Many projects are terminated before they can be successfully completed. One potential source of uncertainty in a project that was selected using the sacred cow method would be the continuity of executive leadership. Therefore, it would be important for the project manager to understand the project-related factors that would support the overall corporate strategy for business success. Otherwise, should the sponsoring executive depart the company prior to completion of the project, the project will lack a sponsor. Given the selection method used, the scope of the project is likely to be unstable. A project manager should think about what he/she is doing and how it supports business success. This suggests that the project manager should understand the correlation between the project's selection criteria and the business strategy.

Level: Advanced
Section Reference: 2.2 Project Selection Models
Bloom's: Application
AACSB: Analysis
Page: 35

42. Project Boulder has a payback period of 2.4 years, an NPV of $10,000, and a profitability index of 1.10. Project Flintstone has a payback period of 3.0 years, an NPV of $10,000 and a profitability index of 1.05. If only one project can be executed, which project should be selected? Explain your reasoning.

Ans: Based on the available data, Project Boulder appears to be more favorable. In addition to recovering the initial investment more quickly, the same net present value is generated using fewer resources.

Section Reference: 2.2 Project Selection Models
Level: Advanced
Bloom's: Analysis
AACSB: Analysis
Page: 38-39

43. Consider the following three-year projects A and B each with the same initial investment of $1000. You are presented with the following measures for the projects:
Project A: NPV $400; Payback 24 months
Project B: NPV $545; Payback 26 months
Which project would you choose and why?

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Ans: Project B would be the better choice for the following reasons:
Project B has a greater NPV. Since NPV takes into account the time value of money and Payback does not, NPV is a more robust estimate. The fact that the Payback is delayed by two months (a 5.5% delay in a 36 month project) does not warrant leaving $145 on the table (36.25% higher NPV).

Section Reference: 2.2 Project Selection Models
Level: Advanced
Bloom's: Analysis
AACSB: Analysis
Page: 38-39

44. Contrast the real options selection approach with profitability models.

Ans: Profitability models analyze a potential project using a single criterion: monetary return. This analysis may also include time value of money but this is not always true. Real options models are based on the concept of investing now to create opportunities for the future. This model analyses a potential project in terms of options that it generates or capability that it provides to a firm in the future. The investment may or may not be profitable or beneficial in the near future.

Section Reference: 2.2 Project Selection Models
Level: Intermediate
Bloom's: Analysis
AACSB: Analysis
Page: 39

45. Explain the difference between risk and uncertainty.

Ans: Uncertainty means that it is possible to have alternate outcomes. Risk is uncertainty that affects the project for better or for worse. If the risk is favorable, it presents the project team with an opportunity to capture. If the risk is unfavorable, it represents a threat that may require a response from the project team. Uncertainty will not always affect the project. If the project is unaffected by the uncertain scenario, the uncertain scenario is not a risk to the project. Uncertainty ends when determinism is achieved.

Section Reference: 2.4 Risk Considerations in Project Selection
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