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Module 4

1. Risk management recognizes the capacity of any project to run into trouble. It also is defined as the art and science of identifying, analyzing, and responding to risk factors throughout the life of a project and in the best interests of its objectives. Project risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on one or more project objectives. Whether these factors help you or hurt you, it is crucial that you acknowledge the possibility.
2. The first step is risk identification, which is the process of determining these specific risk factors that can reasonably be expected to affect your project. The second step is the analysis of probability and consequences, which is the potential impact of these risk factors, determined by how likely they are to occur and the fact they would have on the project if they did occur. The third step is risk mitigation strategies, which are the steps taken to minimize the potential impact of those risk factors deemed sufficiently threatening to the project. The final step is control and documentation, which is creating a knowledge base for future projects based on lessons learned.
3. The two risks I chose to write about were execution risk and commercial risk. Commercial risk is an uncertainty that companies may willingly accept, given that it is virtually impossible to accurately predict customer acceptance of the new product or service venture. Execution risk is a broad category that seeks to assess any unique circumstances or uncertainties that could have a negative impact on execution of the plan.
4. Accept risk is acknowledging minor occurrences are going to happen, but they are so small that they can be ignored and accepted. Minimize risk is the action of trying to stop the challenges from becoming a thing or even becoming a bigger problem than they need to be. Share risk is allocating risk proportionately among the team members of the project. Transfer risk is acknowledging that some risks cannot be eliminated or minimized so a company would shift the risk to another party.
5. Cost estimation processes create a reasonable budget baseline for the project and identify project resources both human and material, creating a time-phased budget for

their involvement in the project. Cost estimation and project management go hand in hand. The estimates of the costs for various components of the project are developed into a comprehensive project budgeting document that allows for ongoing project tracking and cost control. Cost estimates are used in initial proposals when identifying all possible costs associated with the project.

6. Project costs include labor, labor costs are those associated with hiring and paying various personnel involved in developing the project. Material costs apply to the specific equipment and supplies the project team will need to complete the job. Subcontractors provide resources or expertise for the project; their costs must be factored into the preliminary cost estimate for the project and be reflected in its budget. Equipment and facilities, some parts of the project are going to be away from the home site, and rentals or facilities need to be charged against the cost of the project.
7. Direct costs are those clearly assigned to the aspect of the project that generated the cost. Labor and materials must be the best examples, labor costs associated with the workers who build a house are considered a direct cost. Indirect costs are generally linked to two features: overhead and selling in general administration. Overhead costs are the most common forms of indirect costs.
8. A parametric cost estimate is a type of cost estimate that uses statistical data and mathematical models to estimate the cost of a project or product. This type of estimate is based on a set of parameters that are used to calculate the cost of various components of the project or product. The main difference between the two types of cost estimates is the way they are calculated. A parametric cost estimate is based on mathematical models and statistical data, while an analogous cost estimate is based on historical data and comparisons to past projects or products.
9. A learning curve is a graphical representation of the rate at which a person or organization learns a new skill or task over time. The learning curve shows how the amount of time or effort required to complete a task decreases as the person or organization gains experience and familiarity with the task. The learning curve is important because it helps to understand and predict the amount of time and resources required to complete a task or project. As people or organizations become more familiar with a task, they become more efficient at completing it, which can result in reduced costs, increased productivity, and improved quality.
10. There are a multitude of reasons that developing an accurate cost estimate can be difficult including lack of definition, external factors, specification change, unexpected technical difficulties, and low initial estimates. Misinterpretations happen and these are caused because of those faults. It is important to conduct reasonable cost estimates.

11. Top-down budgeting and bottom-up budgeting are two different approaches to creating a budget. Top-down budgeting starts with an overall target or goal set by senior management and then allocates funding and resources down to lower-level departments and units. In contrast, bottom-up budgeting involves starting at the department or unit level, where managers create a budget based on their specific needs and then aggregate those budgets up to create an overall budget. Top-down budgeting is often used in large organizations or during times of significant change or uncertainty, where senior management needs to have a high level of control over the budget process.

12. Activity-based costing is a budgeting method that assigns costs first to activities and then to the projects based on each project's use of resources. There are four steps, the first two are identifying the activities that consume resources and assign costs to them, as is done in a bottom-up budgeting process. Identify the cost drivers associated with the activity, resources in the form of project personnel and materials are key cost drivers. The last two steps are to compute a cost rate per cost driver unit or transaction and assign costs to projects by multiplying the cost driver rate times the volume of cost driver units consumed by the project.