Test Bank for Entrepreneurship Starting and Operating A Small Business 4th Mariotti

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Entrepreneurship: Starting & Operating a Small Business, 4e **(Mariotti)**
Chapter 1 Entrepreneurs Recognize Opportunities

1) Products are tangible, meaning _____.
A) you can't actually touch them
B) you can sell them
C) you can touch them
D) you can see them
Answer: C
Diff: 1 Page Ref: 3
Learning Object.: 1.1 Summarize what entrepreneurs do.
AACSB Category: Reflective thinking

2) Entrepreneurs are often both owners and _____.
A) creditors
B) employees
C) customers
D) suppliers
Answer: B
Diff: 2 Page Ref: 3
Learning Object.: 1.1 Summarize what entrepreneurs do.
AACSB Category: Reflective thinking

3) An entrepreneur is a person who assumes the risks of organizing and managing a business for the sake of reducing stress from the "rat race."
Answer: FALSE
Diff: 1 Page Ref: 3
Learning Object.: 1.1 Summarize what entrepreneurs do.
AACSB Category: Reflective thinking

4) Explain how entrepreneurs can add value to scarce resources, and what signal they use to determine whether or not they are succeeding in doing so.
Answer: A scarce resource is something of value that can be used to make something else or to fill a need. The French economist Jean Baptiste Say wrote at the turn of the 19th century: "The entrepreneur shifts economic resources [like wood or coal] out of an area of lower and into an area of higher productivity and greater yield." By doing this, Say argued, entrepreneurs add value to scarce resources.
Diff: 3 Page Ref: 4
Learning Object.: 1.1 Summarize what entrepreneurs do.
AACSB Category: Analytical thinking

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5) In the United States nearly half of the private workforce is represented by _____.
A) small business owners and their employees
B) entrepreneurs
C) corporations and their employees
D) women and minorities
Answer: A
Diff: 1 Page Ref: 7
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

6) A(n) _____ is the wealth and resources of a country or region, including its financial structure.
A) economy
B) government
C) justice system
D) free enterprise
Answer: A
Diff: 2 Page Ref: 4
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

7) Entrepreneurs have more control over more aspects of their working lives than employees. Of which aspect of their working lives do employees have more control?
A) financial uncertainty
B) working conditions
C) time
D) encroachment on personal time
Answer: A
Diff: 2 Page Ref: 10
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

8) Cash or goods invested to generate income and wealth is called _____.
A) profit
B) capital
C) debt
D) liability
Answer: B
Diff: 1 Page Ref: 5
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

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9) The United States economy is a free enterprise system. It is also referred to as a "free trade system" because it is based on _____.
A) voluntary exchange
B) gambling and chance
C) involuntary exchange
D) government cooperation
Answer: A
Diff: 1 Page Ref: 5
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

10) Entrepreneurship can be very challenging. Which is **not** a typical challenge of being an entrepreneur?
A) loneliness
B) financial reward
C) long hours
D) financial insecurity
Answer: B
Diff: 2 Page Ref: 10
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

11) When making an investment, always consider the _____, which is the cost of your next-best investment.
A) next-investment cost
B) cost of goods sold
C) opportunity cost
D) marginal cost
Answer: C
Diff: 3 Page Ref: 11
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

12) The free-market system is also called _____.
A) volunteerism
B) socialism
C) capitalism
D) dogmatism
Answer: C
Diff: 1 Page Ref: 4
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

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13) Most of the world's businesses are _____ businesses.
A) small
B) medium-sized
C) large
D) family-owned
Answer: A
Diff: 1 Page Ref: 6
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

14) A company that has more than _____ employees and sales of more than $_____ million per year is considered to be a "big" business.
A) 100/$5 million
B) 100/$10 million
C) 500/$5 million
D) 500/$10 million
Answer: C
Diff: 2 Page Ref: 6
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

15) Some of the world's greatest entrepreneurs have overcome challenges from their childhood and youth, including all of these except one.
A) learning disabilities
B) abuse
C) extreme poverty
D) financial prosperity
Answer: D
Diff: 3 Page Ref: 9
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

16) The corporate equivalent of paying owners a portion of the business's profits is called a _____.
A) bonus
B) dividend
C) capital
D) revenues
Answer: B
Diff: 3 Page Ref: 9
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

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17) Which of the following is **not** a characteristic that is helpful for an entrepreneur to have?
A) self-confidence
B) caution
C) self-esteem
D) drive
Answer: B
Diff: 1 Page Ref: 9-10
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

18) How does the free-enterprise system discourage entrepreneurs who waste resources?
A) The government penalizes them.
B) They run into regulations that make it too difficult for them to operate.
C) They can't make a profit and are forced out of business.
D) They limit competition.
Answer: C
Diff: 3 Page Ref: 5
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

19) Why do consumers benefit from free trade and the resulting competition between businesses?
A) Competition drives away the entrepreneurs who use resources most wisely.
B) Competition tends to drive down prices and improve quality.
C) Competition offers consumers fewer choices and makes the marketplace less confusing.
D) Competition reduces the choices to consumers.
Answer: B
Diff: 3 Page Ref: 5
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

20) A for-profit enterprise with the dual goals of achieving profitability and attaining beneficial returns for society is called _____.
A) venture capitalism
B) serial entrepreneurship
C) social entrepreneurship
D) portfolio entrepreneurship
Answer: C
Diff: 3 Page Ref: 13
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
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21) Entrepreneurs that participate in activities to avoid harm to the environment or help protect it in some ways are engaged in _____.
A) venture philanthropy
B) green entrepreneurship
C) social entrepreneurship
D) corporate responsibility
Answer: B
Diff: 1 Page Ref: 14
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

22) Benefits of becoming an entrepreneur include independence, satisfaction, financial reward, self-esteem, and contributions to society.
Answer: TRUE
Diff: 2 Page Ref: 8-9
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

23) The economy of the United States is a free-enterprise system.
Answer: TRUE
Diff: 1 Page Ref: 4
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
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24) Describe three potential rewards of becoming an entrepreneur that appeal to you.
Answer: (The answer should describe 3 of the following 5 rewards.)
1. Control over time - Do you work better at midnight than at 8 a.m.? If you start your own business, you have control over how you spend your time. Are you the type of person who would rather work really hard for two weeks nonstop and then take a break? If you are an entrepreneur, you can. You can also choose to hire other people to do tasks that you do not want to do or are not good at, so you can stay focused on what you do best. Bill Gates likes to spend his time designing software. He hires other people to manage Microsoft's operations and market and sell its products.
2. Fulfillment - Successful entrepreneurs are passionate about their businesses. They are excited and fulfilled by their work. Entrepreneurs are almost never bored. If something about running their business is boring to them, they can hire someone to do that task.
3. Creation/Ownership - Entrepreneurship is a creative endeavor: Entrepreneurs put their time into creating something that they hope will survive and become profitable. Entrepreneurs own the businesses that they create and the profits that the businesses earn. Ownership is the key to wealth. Your goal is to create a business that makes a continuing profit. Eventually, you may be able to sell that business for a multiple of earnings. That is how entrepreneurs create wealth.
4. Control over compensation - Entrepreneurs choose how they are paid. As owner of your company you can decide to:
Pay yourself a salary - a fixed payment made at regular intervals, such as every week, or every month. No matter how much time you put in, the salary remains the same.
Pay yourself a wage - a fixed payment per hour.
Take a share of the company's profit - as the owner you can pay yourself a portion of the business's profit. This payment is called a dividend.
Take a commission on every sale you make. - A commission is a percentage of the value of a sale. If you decide to pay yourself 10% commission and you sell one of your products for $120, your commission on the sale would be $12.
5. Control over working conditions - As an entrepreneur you can create a working environment that reflects your values. If you believe in recycling, you can make sure your company recycles. You also evaluate your own performance. No one else has the power to hire or fire you.
Diff: 3 Page Ref: 8-9
Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Analytical thinking

25) Explain why it is important to consider opportunity cost when making a decision.
Answer: Using a comparison of costs and benefits to make a decision is called cost/benefit analysis. It is a helpful tool because we tend to make decisions with our emotions, not by using our intellect to evaluate the pros and cons. Cost/benefit analysis can be inaccurate without including opportunity cost. This is the cost of your "next-best investment." People often make decisions without considering opportunity costs and then wonder why they are not happy with the outcome. Each time you make a decision about what to do with your time, energy, or money think about the cost of the opportunities that you are giving up.
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Learning Object.: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.
AACSB Category: Reflective thinking

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26) Entrepreneurs look at five basic ways of opportunity for business ideas. Which is **not** one of those five?
A) developing a new market for an existing product
B) producing a product more cheaply
C) finding new ways to use existing technology
D) raising prices in an existing market
Answer: D
Diff: 3 Page Ref: 15
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Analytical thinking

27) Entrepreneurs view problems as a(n)_____.
A) roadblock
B) opportunity
C) hurdle
D) challenge
Answer: B
Diff: 3 Page Ref: 16
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Reflective thinking

28) The great economist Joel Schumpeter emphasized that innovation is the key to entrepreneurship. Which of the following is a basic way to create a new business?
A) expand upon old technology
B) develop current markets
C) use new technology to produce a new product
D) find a less expensive source of resources
Answer: C
Diff: 3 Page Ref: 15
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Analytical thinking

29) A business opportunity is an idea, plus _____.
A) it is attractive to suppliers
B) it may have marginal performance in your business environment
C) it has a limitless window of time to work within
D) it is attractive to customers and will work in your business environment
Answer: D
Diff: 3 Page Ref: 17
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Analytical thinking

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30) In creating a new business, a(n) _____ is one that comes from inside you, a hobby or an interest.
A) internal opportunity
B) passionate choice
C) compulsion
D) external opportunity
Answer: A
Diff: 2 Page Ref: 18
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Reflective thinking

31) The best business opportunities often combine both _____ and _____.
A) extreme luck/chance
B) luck/sales skill
C) sales/marketing
D) internal/external factors
Answer: D
Diff: 2 Page Ref: 19
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Reflective thinking

32) Russell Simmons, founder of Def Jam Records, believes that if you know 10 people who will buy your product, _____ would be willing to buy it if they knew about it.
A) 1,000
B) 10 more
C) 10 million
D) 10,000
Answer: C
Diff: 2 Page Ref: 19
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Application of knowledge

33) A(n) _____ is a plan for how a business intends to go about its own performance and outdo that of its competition.
A) strategy
B) model
C) opportunity
D) All of the above.
Answer: A
Diff: 3 Page Ref: 19
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Analytical thinking

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34) What are the four characteristics of a business opportunity?
Answer:
1. It is attractive to customers because it creates or adds value for its customers.
2. It will work in the business environment.
3. It can be executed in a defined window of opportunity.
4. It can be implemented with the right team to make it durable.
Diff: 3 Page Ref: 18
Learning Object.: 1.3 Identify and evaluate opportunities to start your own business.
AACSB Category: Analytical thinking

35) If a business is not making a profit, the entrepreneur knows that _____.
A) no one wants to buy the product/service
B) he/she is not making good use of scarce resources
C) people are willing to buy the product/service at a high price
D) competition is too great
Answer: B
Diff: 3 Page Ref: 23
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Analytical thinking

36) _____ is the sign that an entrepreneur has added value to the resources he or she is using.
A) Profit
B) Sales
C) Revenues
D) Liabilities
Answer: A
Diff: 2 Page Ref: 23
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Analytical thinking

37) Closing a business is nothing to be ashamed of if you _____.
A) learn something from the experience
B) are on vacation in Jamaica
C) have a partner
D) are a corporation
Answer: A
Diff: 2 Page Ref: 23
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Reflective thinking

38) The seven rules for building a successful business include recognizing an opportunity, evaluating it with critical thinking, building a team, and financing with money from credit cards.
Answer: FALSE
Diff: 3 Page Ref: 24
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Analytical thinking

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39) Profits result from customer choices, **not** the entrepreneur's choices.
Answer: FALSE
Diff: 3 Page Ref: 23
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Reflective thinking

40) What are the seven rules for building a successful business?
Answer:
1. Recognize an opportunity. Find a problem, change, invention, technology, or competitive weakness that you can exploit.
2. Evaluate it with critical thinking. Analyze the idea: the costs, the benefits, and the opportunity costs.
3. Build a team. Two, three, or four heads are better than one.
4. Write a realistic business plan. A written business plan is necessary to get investors to provide you money.
5. Gather resources. Assemble the team and the money you have brought together.
6. Decide ownership. NOTE: This is not really explained in the chapter but it alludes to deciding the legal form of ownership of the business: proprietorship, some form of partnership, or some type of corporation.
7. Create wealth. NOTE: This is not elaborated upon either, but it refers to using the business to generate ongoing profit or to create a platform for acquisition by others at a profit to the founder/owner.
Diff: 2 Page Ref: 24
Learning Object.: 1.4 Explain how profit works as a signal to the entrepreneur.
AACSB Category: Analytical thinking

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