

**490-Exam-1**

**Spring 2008**

**Multiple Choice**

*Identify the letter of the choice that best completes the statement or answers the question.*

- \_\_\_\_\_ 1. The most productive deliberate search approach for new businesses starts by looking at
  - a. prior work experience.
  - b. personal interests and hobbies.
  - c. a chance happening.
  - d. marketplace needs.
  
- \_\_\_\_\_ 2. Environmentalism poses the greatest threat to small
  - a. iron foundries.
  - b. drugstores.
  - c. movie theaters.
  - d. auto repair shops.
  
- \_\_\_\_\_ 3. Which of the following franchisors has a well-implemented franchisee training program?
  - a. Snap-on-Tools
  - b. WFC
  - c. CleanNet USA
  - d. McDonalds
  
- \_\_\_\_\_ 4. According to a study by the National Federation of Independent Business Foundation, the most common source of new product ideas for small business startups is
  - a. prior work experience.
  - b. personal interests and hobbies.
  - c. a chance happening.
  - d. existing records of a business.
  
- \_\_\_\_\_ 5. Which type of strategy requires a firm to be the lowest-cost producer within the market?
  - a. Price-based
  - b. Marketing-based
  - c. Efficiency-based
  - d. Cost-based
  
- \_\_\_\_\_ 6. Which of the following is a key question that an entrepreneur must address in anticipation of post-harvest life?
  - a. How can I increase my passion for the harvest process?
  - b. Will I experience serious regrets over the decision to harvest my investment in the company?
  - c. Will I still be respected as a leader in the company?
  - d. What will my legacy be within the company?
  
- \_\_\_\_\_ 7. Koldpak has focused principally on the development of revolutionary new ways of containerizing fresh produce for grocery stores. The firm's marketing philosophy is
  - a. consumer-oriented.
  - b. market-oriented.
  - c. production-oriented.
  - d. sales-oriented.

- \_\_\_\_\_ 8. The ethical standards of entrepreneurs
- are unaffected by profit motives.
  - are affected by profit motives.
  - are seldom challenged by real-world events.
  - are higher overall than those of corporate managers.
- \_\_\_\_\_ 9. The narrative form of an executive summary
- is more straightforward than the synopsis form.
  - allows the author to include hyperbole that builds enthusiasm.
  - is a better format for ventures that have one dominant advantage.
  - gives each topic relatively equal treatment.
- \_\_\_\_\_ 10. Different types of small business ownership opportunities include all of the following *except*
- startups.
  - bailouts.
  - family businesses.
  - franchises.
- \_\_\_\_\_ 11. Stockholders have limited liability unless they
- are active in the management of the corporation.
  - personally endorse company notes.
  - own preferred stock.
  - convert their shares to partnership status.
- \_\_\_\_\_ 12. The cash flow statement measures cash flows on
- an annual basis.
  - an accrual basis.
  - a cash-basis.
  - a normalized basis.
- \_\_\_\_\_ 13. Regarding IPOs, the primary motivation of the issuing firm and that of the investment banker are
- the same-maximizing the price of the firm.
  - similar-completing the sale.
  - very different because they are compensated for different outcomes.
  - impossible to know since every deal is structured differently.
- \_\_\_\_\_ 14. Looking to the future, strategic alliances represent \_\_\_\_\_ for small entrepreneurial firms.
- a serious threat
  - a monopolistic combination
  - promising opportunities
  - a prohibitively expensive strategy
- \_\_\_\_\_ 15. An example of a Type C startup idea is
- a new microspunge technology allowing oils to be contained inside billions of microscopic sponges.
  - a baby stroller that pushes more easily and is more difficult to overturn than previous designs.
  - opening a new hamburger stand on the corner with no unique product differentiation.
  - using satellite dish technology to form a mobile satellite transmitter and receiver business.
- \_\_\_\_\_ 16. A disadvantage of a sole proprietorship is
- the complexity of the organization.
  - the cost of starting the business.
  - the lack of limits on personal liability.
  - the difficulty of distribution.

- \_\_\_\_\_ 17. As the Internet continues to grow, it is safe to assume that property rights will
- become less difficult to protect.
  - become more difficult to protect.
  - become an irrelevancy of the past.
  - become universally assumable.
- \_\_\_\_\_ 18. Traditionally, U.S. franchisers have done most of their international franchising in
- Canada.
  - Japan.
  - Mexico.
  - China.
- \_\_\_\_\_ 19. The argument developed in Chapter 1 about entrepreneurial opportunities holds that
- potentially profitable opportunities exist at all times.
  - the biggest barrier to seizing opportunities is lack of capital.
  - minorities are effectively blocked from exploiting opportunities.
  - approximately 99 percent of all opportunities involve some form of retailing.
- \_\_\_\_\_ 20. A small business's advantages of finding a special niche include all of the following EXCEPT:
- avoiding intense competition
  - servicing a particular geographic
  - having room for expansion
  - diminishing overall profitability
- \_\_\_\_\_ 21. A loan covenant is very unlikely to require
- provision of timely and complete information.
  - salary limitations.
  - a personal guarantee.
  - a fixed business strategy.
- \_\_\_\_\_ 22. Bait advertising attempts to
- conceal product defects.
  - lure customers with the intention of selling them a different product.
  - use customer service as an incentive to buy a product.
  - persuade users to purchase products that may be injurious to their health or welfare.
- \_\_\_\_\_ 23. Small businesses that have great prospects for growth are called \_\_\_\_\_.
- gorillas
  - antelopes
  - jaguars
  - gazelles
- \_\_\_\_\_ 24. The most important influence on ethics in a small business is
- the accountant or bookkeeper who keeps honest financial records.
  - the salesperson who quotes a fair price to customers.
  - the founder or owner whose values are put into practice.
  - the existence of a written code of ethics.
- \_\_\_\_\_ 25. A partner can purchase a new copier for the partnership without consulting the other partners because each partner has \_\_\_\_\_ power.
- agency
  - purchasing
  - separability
  - fiduciary

- \_\_\_\_\_ 26. Entrepreneur Carrie McAbee's purchase of a Hair Diamond kiosk franchise is an example of
- how an entrepreneur's lack of due diligence can lead to business failure.
  - the opportunities that piggyback franchises offer to entrepreneurs.
  - how important franchisor support can be to a franchisee's success.
  - why marginal businesses do not make good franchise opportunities.
- \_\_\_\_\_ 27. The franchising strategy whereby an individual or firm is granted the legal right to own more than one unit of a franchised business is known as
- development franchising.
  - multiple-unit ownership.
  - piggyback franchising.
  - aggregate ownership.
- \_\_\_\_\_ 28. A primary source of financing for most smaller companies is
- trade credit.
  - long-term bank loans.
  - mortgages.
  - asset-based notes.
- \_\_\_\_\_ 29. Websense Inc. found that \_\_\_\_\_ percent of employees in small businesses it surveyed visited Web sites unrelated to their work.
- 49
  - 18
  - 26
  - 64
- \_\_\_\_\_ 30. Certified Business Brokers (<http://www.certifiedbb.com>) in Houston, Texas, deal with mergers and acquisitions of small and mid-sized companies in the United States. This business is defined in the text as a(n) \_\_\_\_\_ firm for entrepreneurs seeking to purchase a business.
- matchmaker
  - acquisition agent
  - coordinating specialist
  - prospector
- \_\_\_\_\_ 31. Research has shown that a daughter's role in a family-owned business can often be described as
- clearly defined.
  - a respected cheerleader for the enterprise.
  - playing the part of "daddy's little girl".
  - well developed, since their participation in the firm is usually anticipated years in advance.
- \_\_\_\_\_ 32. A primary driving force of future asset needs is
- investments.
  - sales.
  - external equity.
  - internal equity.
- \_\_\_\_\_ 33. When a large business like IBM or General Motors downsizes and lays off workers, some of these displaced employees decide to start their own businesses. They are best described as
- foreign refugees.
  - welfare profiteers.
  - reluctant entrepreneurs.
  - corporate entrepreneurs.

- \_\_\_\_\_ 34. *The big picture* includes all of the following EXCEPT:
- the management team.
  - the regulatory environment.
  - interest rates.
  - inflation.
- \_\_\_\_\_ 35. Individuals or firms that possess the legal right to open multiple outlets in a given area are referred to as
- development franchisees.
  - area developers.
  - piggyback franchisees.
  - multiple-unit owners.
- \_\_\_\_\_ 36. In selecting the type of legal organization to use for a new small business, which of the following is a major consideration?
- Profitability
  - Management control
  - Available benefits
  - Procedures for termination or liquidation
- \_\_\_\_\_ 37. Large manufacturers have been known to form strategic alliances with small manufacturers in order to benefit from the smaller firms'
- financial resources.
  - operational expertise.
  - research and development.
  - creativity.
- \_\_\_\_\_ 38. Section 1244 stock somewhat protects the stockholder in a corporate failure
- by guaranteeing its par value against corporate assets.
  - by converting to a redeemable bearer bond if the corporation fails.
  - because the loss may be treated as an ordinary tax-deductible loss.
  - because its value must be backed by Treasury securities.
- \_\_\_\_\_ 39. A prospective entrepreneur wants to find a career doing what she enjoys most—designing and selling clothing. She might be drawn to try an entrepreneurial venture in order to realize
- personal fulfillment.
  - substantial long-term profits.
  - freedom from control of a managerial hierarchy.
  - a sense of self-esteem as a result of building her own business.
- \_\_\_\_\_ 40. Drill presses or lathes would be grouped together in a
- process layout.
  - product layout.
  - grid layout.
  - continuous-flow layout.
- \_\_\_\_\_ 41. One of the most common problems for a founder in passing the business on to a son or daughter is
- introducing the child to outsiders such as bankers.
  - finding a suitable position for the son or daughter within the business.
  - arranging the transition from part-time to full-time employment.
  - deciding whether the child has the necessary temperament and ability.

- \_\_\_\_\_ 42. In the operation of their Woodplay franchise, Nicole and Jason Gullege's attitude toward business can be described as
- take care of the franchise and it will take care of the family.
  - putting the family first and the business second.
  - satisfying their customers is the most important priority.
  - doing business is fun but only if you make it so.
- \_\_\_\_\_ 43. Which of the following is one of the factors that determines the nature and degree of competition in an industry, as identified by Michael Porter in his book *Competitive Advantage*?
- The interest of small businesses
  - Bargaining power of competitors
  - Threat of substitute products or services
  - The macroeconomy
- \_\_\_\_\_ 44. The importance of a strong management group in a new venture is evidenced by the
- attitudes of investors.
  - eagerness of new entrepreneurs to sign up for management seminars.
  - comparative profit data compiled by the Internal Revenue Service.
  - reading interests of new management teams, who seek management books and periodicals.
- \_\_\_\_\_ 45. Though often assumed to be the same, profits shown on a company's income statement are *not* the same as its
- owners' total compensation.
  - financial performance.
  - cash flows.
  - taxable income.
- \_\_\_\_\_ 46. Which of the following statements about observational methods is *not* true?
- They can be very economical.
  - They avoid potential biases.
  - They can be conducted by a human or by mechanical devices.
  - They are a form of secondary data collection.
- \_\_\_\_\_ 47. Which of the following is *not* one of the advantages B2C models have over bricks-and-mortar retailing?
- Speed of access
  - Speed of transaction
  - 24/7 service
  - Superior customer service
- \_\_\_\_\_ 48. Which of the following is *not* a good source of secondary data for small businesses?
- software programs that offer useful information
  - the Small Business Administration
  - company records
  - relevant Web sites
- \_\_\_\_\_ 49. A reluctant entrepreneur is a woman who
- leaves her children with a babysitter to follow a secretarial career.
  - divorces her husband because of his intense preoccupation with his business.
  - starts her own business after her grown children return to live with her.
  - leaves a family business to show that she can do it on her own.
- \_\_\_\_\_ 50. In considering the content of a business plan, an entrepreneur should think first and foremost about
- how to present factors related to the opportunity.
  - formulating effective strategies and financial projections.
  - who will be reviewing the plan.
  - how to protect the confidentiality of the plan.

- \_\_\_\_\_ 51. Which source of information is *not* recommended to help a potential franchisee investigate a franchising opportunity?
- The franchisors themselves
  - The franchisor's suppliers
  - Existing and previous franchisees
  - Independent, third-party sources
- \_\_\_\_\_ 52. The marketing plan should follow the establishment of user benefits and document the existence of
- sources of financing.
  - managerial experience.
  - customer interest.
  - patent protection.
- \_\_\_\_\_ 53. Amazon.com and other firms like it appear to be establishing customer relationships on the Web
- because these provide a positive cash flow to the company.
  - to measure the potential of market interest.
  - with the hope of cashing in on these at a later date.
  - with increasing ease.
- \_\_\_\_\_ 54. Sundra Ryce's SLR Contracting & Service Company is a success for all of the following reasons EXCEPT:
- She had experience in construction.
  - She used her startup resources carefully.
  - She relied on set-aside contracts.
  - She had access to family financing.
- \_\_\_\_\_ 55. Site-related factors that should be taken into consideration when one is selecting a retail location include
- future advertising costs.
  - the labor supply.
  - raw material availability.
  - customer accessibility.
- \_\_\_\_\_ 56. In addition to consulting an attorney, a potential franchisee should consider using the services of
- a trusted friend.
  - a financial advisor.
  - as many sources of help as would be practical.
  - an experienced administrator.
- \_\_\_\_\_ 57. A balloon payment
- is an upfront payment to obtain a loan.
  - is due when a loan comes due.
  - may be due at any time during the term of a loan.
  - is used to lift (remove) a loan covenant.
- \_\_\_\_\_ 58. A typical common stockholder of a corporation
- has the right to act for the firm.
  - has the right to receive declared dividends.
  - can always buy new stock in proportion to stock already owned.
  - can fire employees of the corporation.
- \_\_\_\_\_ 59. The owners of small firms have a tendency to \_\_\_\_\_ the amount of capital their business requires.
- downplay
  - ignore
  - overestimate
  - underestimate

- \_\_\_\_\_ 60. An example of a Type A startup idea is
- a new microsponge technology allowing oils to be contained inside billions of microscopic sponges.
  - a baby stroller that pushes more easily and is more difficult to overturn than previous designs.
  - opening a new hamburger stand on the corner with no unique product differentiation.
  - using satellite dish technology to form a mobile satellite transmitter and receiver business.
- \_\_\_\_\_ 61. Which of the following is *not* one of the major categories of e-commerce businesses?
- Consumer-to-business
  - Business-to-consumer
  - Business-to-business
  - Auction sites
- \_\_\_\_\_ 62. In order to be appropriately considered a market, a group of customers or potential customers must have
- purchasing power.
  - market power.
  - satisfied needs.
  - correlated needs.
- \_\_\_\_\_ 63. In a business plan, the competition would be discussed in the
- financial plan.
  - general company description.
  - executive summary.
  - marketing plan.
- \_\_\_\_\_ 64. Which of the following is *not* one of the basic objectives of the business plan?
- It identifies the nature and context of the business opportunity.
  - It outlines the approaches other entrepreneurs have taken in the same industry.
  - It serves as a tool for raising financial capital.
  - It highlights factors that will determine whether the venture will be successful.
- \_\_\_\_\_ 65. A corporate charter should
- be detailed.
  - be in accord with state law.
  - include bylaws.
  - indicate profit potential.
- \_\_\_\_\_ 66. In drawing up a code of ethics, a small business owner should adopt a code
- provided by the Ethics Resource Center of Washington, D.C.
  - that outlines ethical principles and gives examples.
  - that outlines ethical principles but avoids examples.
  - suggested by the Better Business Bureau.
- \_\_\_\_\_ 67. Which of the following is *not* a potential advantage of establishing a small business in one's home community?
- Appreciation of the atmosphere of the community
  - More extensive knowledge of consumer tastes
  - Greater ability to establish favorable credit arrangements
  - Increased stability of operations



- \_\_\_\_\_ 68. The projection of the financing needed by a new business should *not* be based on
- the firm's anticipated sales volume.
  - anticipated regularity of cash receipts.
  - predicted regularity of cash payments.
  - estimates of the fixed assets held by the startup's strongest competitor.
- \_\_\_\_\_ 69. The basic instrument used to guide the researcher and the respondent when surveys are taken is known as a
- questionnaire.
  - questioning form.
  - interview outline.
  - guide form.
- \_\_\_\_\_ 70. A corporation's board of directors
- is the governing body for corporate activity.
  - directly manages the corporation.
  - determines the taxability of dividends.
  - usually designs the organizational structure of the firm.
- \_\_\_\_\_ 71. In a business plan, discussion of the management plan should detail
- the proposed venture's organizational structure.
  - profiles of employee needs during the first three years of operation.
  - the projected growth of the proposed venture.
  - the intended distribution of ownership in the firm.
- \_\_\_\_\_ 72. The daughter of an entrepreneur disliked her father's criticism and eventually decided to quit the family business and show her father that she could start her own business. The daughter is a
- corporate opportunist.
  - feminist advocate.
  - potential housewife.
  - refugee.
- \_\_\_\_\_ 73. Helen Artz is planning to open a high-fashion clothing store for young professional women. She knows that the fixtures she acquires for the store should be
- economical.
  - elegant.
  - practical.
  - feminine.
- \_\_\_\_\_ 74. Entrepreneurs' choices that affect the nature of a small firm and its basic direction are known as
- market-based decisions.
  - tactical decisions.
  - strategic decisions.
  - focus-based decisions.
- \_\_\_\_\_ 75. Which of the following is *not* one of the benefits of developing a business plan?
- This forces the entrepreneur to consider systematically all of the factors in starting a business.
  - It ensures that the startup's cash flows are manageable, especially in the first 5-7 years.
  - This imposes needed discipline on the entrepreneur and the management team.
  - This can be helpful in selling the new venture to those within the company.
- \_\_\_\_\_ 76. Amazon.com represents the classic \_\_\_\_\_ firm.
- B2B
  - B2C
  - C2C
  - online auction

- \_\_\_\_\_ 77. To be eligible to be an S corporation, a firm must
- have more than 75 stockholders.
  - have no nonresident alien stockholders.
  - have two or more classes of stock outstanding.
  - be international in scope.
- \_\_\_\_\_ 78. Any person capable of \_\_\_\_\_ may legally become a business partner.
- assenting to liability
  - contracting
  - contributing capital
  - having a claim on assets
- \_\_\_\_\_ 79. All of the following are considered attractive characteristics of franchising *except*
- higher success rates than for alternative methods.
  - entrepreneurial independence.
  - financial and training assistance.
  - operating benefits.
- \_\_\_\_\_ 80. Using the textbook's criteria for defining a small business, Portland Ceramics isn't a small business if it
- is financed by one or only a few individuals.
  - is considerably smaller than larger firms in the industry.
  - is engaged in geographically dispersed operations.
  - has fewer than 100 employees.
- \_\_\_\_\_ 81. Techniques used to collect primary data are often classified as \_\_\_\_\_ and \_\_\_\_\_ methods.
- internal/external
  - observational/questioning
  - exploratory/descriptive
  - focus/comprehensive
- \_\_\_\_\_ 82. The most immediate goal of a company once it becomes highly leveraged is to
- make an operating profit.
  - purchase additional assets.
  - restructure its logistics systems.
  - service the debt.
- \_\_\_\_\_ 83. In recent years, the emphasis in U.S. businesses has been on
- consumers.
  - production.
  - sales.
  - time-honored values.
- \_\_\_\_\_ 84. Items covered in the new UFOC include all of the following *except*
- litigation.
  - bankruptcy.
  - investment requirements.
  - marketing goals.
- \_\_\_\_\_ 85. The Internet provides an alternative to
- bricks-and-mortar stores.
  - clicks-and-mortar strategies.
  - B2B businesses.
  - B2C businesses.

- \_\_\_\_\_ 86. A nonfamily employee of a family business complains that the recent promotion of a family member was unfair. The owner should
- enter into a discussion of the roles and opportunities for both family members and outsiders.
  - point out the fact that family members always have the inside track, even though this is disappointing to the bypassed employee.
  - get the employee to think more positively by describing other attractive features of the employee's job.
  - shrug his shoulders and acknowledge that a tension always exists and that it can never be satisfactorily dealt with.
- \_\_\_\_\_ 87. A corporation
- is chartered under state laws.
  - is chartered under federal laws.
  - remains in existence only as long as its owners are alive.
  - shifts liability of its debts to its owners.
- \_\_\_\_\_ 88. A nationwide survey showed that no pressure to act unethically was felt by what proportion of individuals holding managerial and professional positions in small business?
- 0 (zero-None report pressure.)
  - 30.1%
  - 62.4%
  - 72.3%
- \_\_\_\_\_ 89. When an entrepreneur establishes a blueprint for creating a new venture, he or she prepares
- an organization chart.
  - a budget.
  - a sales analysis.
  - a business plan.
- \_\_\_\_\_ 90. A sole proprietor
- assumes all losses of the business.
  - assumes no profits.
  - receives tax-free fringe benefits.
  - assumes no losses.
- \_\_\_\_\_ 91. Which of the following is excluded from the definition of *entrepreneur* given in the book?
- Founder
  - Second generation owner-manager
  - Franchisee
  - A salaried manager who has a flair for innovation
- \_\_\_\_\_ 92. A nonfamily employee of a family business is concerned about competing with family members for future career opportunities. To protect her personal interests, the nonfamily employee should
- align herself with the CEO.
  - ask that the manager clarify the extent of opportunities.
  - seek assurances that she will receive first consideration for promotion, ahead of family members.
  - leave the firm and seek employment in a nonfamily business.
- \_\_\_\_\_ 93. For many new firms, the most important reason to lease rather than buy a facility is
- avoidance of a large cash outlay.
  - freedom in modifying the building.
  - avoidance of interest payments.
  - avoidance of liability lawsuits.

- \_\_\_\_\_ 94. Which of the following is an excellent source of information about franchisors?
- Any state funded university
  - Friends and neighbors
  - Advertisements in the *Wall Street Journal*
  - FranchiseAmerica.com
- \_\_\_\_\_ 95. A partner in ABC construction business who invests in XYZ construction business that is a direct competitor has violated his \_\_\_\_\_ duty to the ABC partnership.
- agency
  - concomitant
  - fiduciary
  - intermediary
- \_\_\_\_\_ 96. Generally speaking, a strategy is
- an action plan that guides resource investments.
  - a formal statement of what the firm intends to do.
  - an expanded description of the firm's mission statement.
  - most effective when it is designed to reflect the tactics that are common within an industry.
- \_\_\_\_\_ 97. *Other assets* would include all of the following *except*
- startup costs.
  - patents.
  - copyrights.
  - inventories.
- \_\_\_\_\_ 98. Prospective investors are most attracted by business plans showing
- evidence of customer acceptance of the venture's product or service.
  - expense projections that are far lower than normal industry ranges.
  - growth projections that are unbelievably strong.
  - detailed drawings and engineering details of the proposed product.
- \_\_\_\_\_ 99. Temptations and pressures to act unethically are such that small firms are
- less vulnerable than large firms.
  - more vulnerable than large firms.
  - as vulnerable as large firms.
  - not subject to the temptations and pressures facing large firms.
- \_\_\_\_\_ 100. The income from a limited partnership is taxed at the same rate as
- ordinary income.
  - municipal dividends.
  - C corporation dividends.
  - extraordinary income.
- \_\_\_\_\_ 101. Adopting a consumer-oriented marketing philosophy is most consistent with
- quickly gaining highly profitable market returns.
  - eventually achieving long-term market success.
  - the revenue stabilizing effect of large market shares.
  - focusing on the single most profitable consumer segment.
- \_\_\_\_\_ 102. A common weakness in small business financing is
- too much owner financing.
  - too much debt financing.
  - too much investment in fixed assets.
  - too much investment in current assets.

- \_\_\_ 103. In a family business, the interests of the family and the interests of the business are best described as
- overlapping.
  - conflicting.
  - coinciding.
  - having no relationship with each other.
- \_\_\_ 104. Recent estimates suggest that family firms generate more than \_\_\_ of the business revenue in the United States and employ more than \_\_\_ of its workforce.
- one quarter, half
  - half, one quarter
  - one quarter, three-quarters
  - half, half
- \_\_\_ 105. A \_\_\_ is an independent firm or individual acting as a sales agent with the responsibility for finding new franchisees within a specified territory.
- multiple-unit franchisor
  - area developer
  - franchisor representative
  - master licensee
- \_\_\_ 106. Concerning the need for good management in the family business, which of the following is one of the "best practices" identified by John L. Ward?
- Resist preparing successors for leadership to avoid demoralizing those who are not selected.
  - Maintain rigid guidelines based on family traditions to guide the company into the future.
  - Emphasize the attraction and retention of family members.
  - Stimulate new thinking and fresh strategic insights.
- \_\_\_ 107. The value of privately held companies will usually be estimated based on
- net income.
  - EBITDA.
  - operating income.
  - market capitalization.
- \_\_\_ 108. Highlights from various sections of a business plan appear in the
- financial plan.
  - general company description.
  - executive summary.
  - operating plan.
- \_\_\_ 109. An entity or individual that grants another party the right to conduct business according to specified methods and terms is known as a
- franchisor.
  - franchisee.
  - franchise.
  - licenser.
- \_\_\_ 110. An inherent problem for couples involved in a family business is that
- conflicts in the business tend to carry over into family life.
  - hours of work become longer for the wife than for the husband.
  - wives get the menial tasks to perform.
  - husbands find their masculinity threatened.

- \_\_\_\_ 111. Competitive advantage in an industry is protected by
- barriers to entry.
  - potential substitute products.
  - intra-industry competition.
  - deregulation.
- \_\_\_\_ 112. The value of a depreciable asset
- is constant over time.
  - increases with each use of the asset.
  - decreases over time.
  - increases over time.
- \_\_\_\_ 113. Max Baer chose to operate his production studio as a sole proprietorship even though his attorney cautioned that he was
- reducing its overall profit potential.
  - increasing his taxable income.
  - exposing himself to unlimited personal liability.
  - violating an existing partnership agreement.
- \_\_\_\_ 114. Which of the following layouts arranges special-purpose equipment along a production line in the sequence in which it is used?
- Product layout
  - Process layout
  - Free-flow layout
  - Self-service layout
- \_\_\_\_ 115. Better Business Bureaus are
- federal government agencies established by Congress.
  - part of the Chamber of Commerce.
  - organizations composed of business firms.
  - associations of religious groups interested in the improvement of business ethics.
- \_\_\_\_ 116. Which of the following situations might be a *precipitating event*?
- Getting laid off by General Motors
  - Making a new firm's first sale
  - Getting a working-capital loan for \$25,000 from a local bank
  - Changing the organizational structure of a small department store
- \_\_\_\_ 117. In the analysis of a market, the customer profile should include a
- description of consumer weaknesses.
  - summary of production plans.
  - a detailed discussion of major customer benefits provided by the product and/or service.
  - a profile of major markets not targeted.
- \_\_\_\_ 118. The IPO process may be one of the most \_\_\_\_ experiences of an entrepreneur's life.
- exhilarating, frustrating, and exhausting
  - frustrating, tempting, and exhausting
  - tempting, exhausting, and exhilarating
  - encouraging and nerve-wrecking
- \_\_\_\_ 119. With regard to market demand estimation, \_\_\_\_ determines whether the sales forecasting process is direct or indirect.
- the industry orientation of the firm
  - the nature of the predicting variable
  - the ultimate goal of the entrepreneur
  - the marketing philosophy of the startup

- \_\_\_\_\_ 120. A marketing campaign would be mostly likely financed by
- a commercial bank.
  - an owner.
  - an outside investor.
  - the SBA.
- \_\_\_\_\_ 121. The key to strong management in a new firm is
- balance, with each member having competence in at least one area.
  - financial competence of the chief executive.
  - a strong marketing manager.
  - close friendship among all members of the team.
- \_\_\_\_\_ 122. Social responsibilities go far beyond a firm's relationships with customers, and typically include diverse areas such as
- protection of the environment.
  - educational activism.
  - consumer protection for all business dealings within the community.
  - protection of religious liberties.
- \_\_\_\_\_ 123. E-commerce innovators
- have an extra edge in defining and developing a market.
  - automatically have a monopoly on success.
  - are few and far between.
  - are almost all out of business today.
- \_\_\_\_\_ 124. Lenders tend to view buyouts favorably because the acquired business has all of the following EXCEPT:
- a credit history.
  - existing assets.
  - a customer base.
  - seller financing.
- \_\_\_\_\_ 125. The mission statement is best described as the
- path that will lead to successful initiation of a startup.
  - potential of the business, as conceived.
  - entrepreneur's personal hopes for the future.
  - intended strategy and business philosophy for making the entrepreneur's vision a reality.
- \_\_\_\_\_ 126. Entrepreneurs should base their market assessments, production schedules, inventory policies, and personnel decisions on
- techniques of observation.
  - qualitative analysis.
  - intuition alone.
  - the sales forecast.
- \_\_\_\_\_ 127. Typical venture capitalists invest approximately \_\_\_\_\_ of their investment in later-stage businesses.
- one-fourth
  - one-half
  - three-fourths
  - nearly all
- \_\_\_\_\_ 128. Characteristics of artisan entrepreneurs include all of the following EXCEPT:
- They are paternalistic.
  - They are good delegators.
  - They use few capital resources.
  - Their time orientation is short.

- \_\_\_\_\_ 129. One of the major sources of early financing is
- family members.
  - commercial banks.
  - business suppliers.
  - asset-based lenders.
- \_\_\_\_\_ 130. Which of the following is the most appropriate and useful role for the entrepreneur's spouse in maintaining good family relationships in a business?
- Worrier
  - Listener
  - Evaluator
  - Appeals judge
- \_\_\_\_\_ 131. Given that they often compete against powerful companies, it is imperative that entrepreneurs
- try to make their businesses as large as capital will permit.
  - achieve a level of complacency that will allow them to maintain their sanity.
  - exploit the opportunities that are available to them.
  - consider diversifying into multiple markets to protect against bankruptcy.
- \_\_\_\_\_ 132. A legal agreement between two parties in a franchise arrangement is referred to as a
- master license.
  - franchise contract.
  - requirements contract.
  - franchise consent draft.
- \_\_\_\_\_ 133. Which of the following is an initiative of the U.S. government to assist small firms?
- Inspire America!
  - The Small Business Administration's Expanding Enterprise program
  - Empowerment Zones/Enterprise Communities
  - Coalition for Commerce
- \_\_\_\_\_ 134. Which of the following typically is *not* found in a *disclosure document*?
- The franchisor's involvement in litigation
  - Key features of the franchisor's experience
  - Details of the franchisor's proprietary technology
  - The franchisor's size
- \_\_\_\_\_ 135. A differentiation-based strategy requires that a firm
- be the lowest-cost provider in an industry.
  - emphasize the uniqueness of its product or services.
  - achieve the highest resource efficiency in an industry.
  - be the lowest-priced competitor in an industry.
- \_\_\_\_\_ 136. While running a family business, a couple is experiencing a strain on family relationships. Which of the following might be the most likely cause of the tension?
- The wife holds the top position in the firm.
  - The husband started the business.
  - The roles of both parties are carefully defined.
  - They have a difference of opinion about a business matter.
- \_\_\_\_\_ 137. The disclosure statement provided to a prospective franchisee must contain all of the following information Except:
- franchisor's finances.
  - experience in the market.
  - involvement in litigation.
  - strategic plans for future expansion.



- \_\_\_\_ 138. The most rudimentary form of business organization among small businesses is the
- corporation.
  - general partnership.
  - sole proprietorship.
  - limited partnership.
- \_\_\_\_ 139. Strategic buyers evaluate acquisition candidates according to the
- stand-alone, cash-generating potential of a target business.
  - synergies they think the target business will create.
  - potential of the target business to preserve employment.
  - quality of the business strategy of the target firm.
- \_\_\_\_ 140. A leveraged buyout involves a high level of \_\_\_\_ financing.
- debt
  - equity
  - strategic
  - unsecured
- \_\_\_\_ 141. B2B firms, in particular, use e-commerce to reduce costs associated with
- sales force management.
  - inventory processing.
  - product distribution.
  - customer contact.
- \_\_\_\_ 142. In passing leadership of a family firm to a new generation, a problem may be encountered because of the existing
- paternalistic culture.
  - collaborative family culture.
  - participative business culture.
  - advisory board governance pattern.
- \_\_\_\_ 143. In the B2B model, the customers can best be described as
- businesses.
  - consumers.
  - franchisees.
  - auction participants.
- \_\_\_\_ 144. The sale of Linda Bush's company, SafeRent, Inc., to First American Corporation is an example of
- a sale to a corporate buyer.
  - a sale to a financial buyer.
  - a sale to a strategic buyer.
  - an employee buyout.
- \_\_\_\_ 145. A \_\_\_\_ mortgage would likely be used to secure financing for mobile construction office.
- chattel
  - real estate
  - revolving
  - term
- \_\_\_\_ 146. An entrepreneur would choose a franchise over an independent startup most likely because of the
- decision freedom it provides.
  - guidance it provides for organizational structure.
  - high probability of success.
  - opportunities to meet and share ideas with other executives.

- \_\_\_\_\_ 147. Which of the following factors affect the size of a firm's cash reservoir?
- the volume of sales
  - cash receipts
  - cash payments
  - all of these
- \_\_\_\_\_ 148. In the context of business planning, a *prospectus* is viewed as a
- financial system.
  - way to guarantee that every employee in the startup knows his or her role in the company.
  - marketing document used to solicit investors' monies.
  - methodology that defines the way every aspect of the business is to be run.
- \_\_\_\_\_ 149. A five year-old asset has a remaining depreciable value of \$75,000. It has been depreciated at five percent per year. How many years remain before its depreciated value will be \$0?
- 5
  - 10
  - 15
  - 20
- \_\_\_\_\_ 150. Amar V. Bhide considers the growth potential of marginal startups to be
- poor at best.
  - moderate with great late-stage potential.
  - exceptionally fast.
  - exceptionally fast and large.
- \_\_\_\_\_ 151. A group of shared characteristics, behaviors, and goals that a firm follows in a particular business situation is known as a
- business model.
  - strategic plan.
  - firm strategy.
  - business profile.
- \_\_\_\_\_ 152. The three primary rewards or incentives for entrepreneurs are
- independence, personal fulfillment, and profit.
  - love of country, independence, and freedom from long hours.
  - preserving the capitalistic system, an easy life, and financial rewards.
  - serving self, love of country, and independence.
- \_\_\_\_\_ 153. Plans that appeal effectively to investors are
- long and thorough.
  - market-oriented.
  - product-oriented.
  - ten or fewer pages.
- \_\_\_\_\_ 154. Which of the following reflects how a partnership pays taxes?
- It doesn't pay any taxes.
  - It pays taxes as a partnership.
  - The partners each pay taxes on the total income.
  - The partners do not pay taxes if they own Section 1244 stock.

- \_\_\_\_\_ 155. Roger Hemingway is analyzing regional differences in seeking a location for a new firm. He just read a *Wall Street Journal* article that ranked states according to the favorability of tax laws. Based on this information, he has decided to give further attention to one of the best states, which is
- Wyoming.
  - Massachusetts.
  - Ohio.
  - New York.
- \_\_\_\_\_ 156. A basic legal principle involving stockholders is that
- an ownership interest in a corporation does not confer a legal right to manage the firm.
  - the board of directors cannot elect the principal owner as president.
  - all dividends are nontaxable.
  - stockholders cannot buy new stock until it is offered for public sale.
- \_\_\_\_\_ 157. In what way is a franchisee's control over the business greatly reduced?
- Most franchisors are located near the franchisee.
  - The franchisees are technically employees of the franchisor.
  - The franchisee is bound by the terms the franchise contract.
  - The franchisee is completely dependent on the franchisor for funding.
- \_\_\_\_\_ 158. Fundamental requirements of a good investment opportunity include all but which of the following?
- The timing must be right.
  - The business must be able to achieve a sustainable competitive advantage.
  - There must be a good fit between the entrepreneur and the opportunity.
  - There can be no more than one fatal flaw.
- \_\_\_\_\_ 159. Johnny Berrins is considering an investment in a nationally known franchise. With which source of information should he be most concerned?
- The franchisor itself
  - The franchisor's suppliers
  - Other independent business people he knows
  - "Infomercials" on the subject
- \_\_\_\_\_ 160. Matt Townsend owns a car dealership that is very profitable. Since he plans to retire in 5-10 years, Townsend has decided to retain ownership for now, but without continuing to grow the business. This change would also allow him to invest for retirement some of the cash that the business is now generating. Which of the following harvesting methods does this illustrate?
- A delayed sellout
  - A strategy to release the firm's free cash flows to the owners
  - Offering stock to the public through an IPO
  - Issuing a private placement of stock
- \_\_\_\_\_ 161. Proprietary information and regulatory protection represent
- entry barriers.
  - exit barriers.
  - competitive barriers.
  - mobility barriers.
- \_\_\_\_\_ 162. A prospective entrepreneur is evaluating the suitability of his own characteristics for an entrepreneurial career. He realizes that he should be prepared to assume
- moderate risks.
  - no risks-that is, he should plan to operate conservatively.
  - risks similar to those a gambler assumes in Las Vegas.
  - psychological risks but not financial risks.

- \_\_\_\_\_ 163. Lauren Hassell, a partner in Jales & Jales Bonding Company, manages its day-to-day operations. She is considered to be a \_\_\_\_\_ partner.
- directing
  - general
  - limited
  - operating
- \_\_\_\_\_ 164. Operating a home-based business successfully requires that the owner
- change locations when the business is over one year old.
  - make a cost analysis that clearly divides costs between the business and the home.
  - establish spatial and nonspatial boundaries between the business and the home.
  - keep the baby at home while working.
- \_\_\_\_\_ 165. Entrepreneurs who are deeply committed to ethical values operate their businesses in ways that reflect
- the standard practices of the industry.
  - their personal interpretations of those values.
  - profit motivations above all others.
  - their personal religious values.
- \_\_\_\_\_ 166. Identifying all buyers in a market's submarkets and then adding up the estimated demand is known as the \_\_\_\_\_ sales forecasting approach.
- breakdown process
  - buildup process
  - chain-ratio method
  - bottom-up
- \_\_\_\_\_ 167. In earlier years, leveraged buyouts became synonymous with the \_\_\_\_\_ LBO.
- bust-up
  - build-up
  - owner-financed
  - publicly-funded
- \_\_\_\_\_ 168. The Gaylor's' succession plan for Al's Formal Wear
- was clearly developed and successful.
  - created frustrations for their four children.
  - was developed too late to save the firm from failure.
  - caused the firm to dissolve into two separate business entities.
- \_\_\_\_\_ 169. The set of cultural patterns in a family business includes
- the business pattern, the governance pattern, and the employee pattern.
  - the business pattern, the governance pattern, and the family pattern.
  - the business pattern, the managerial pattern, and the family pattern.
  - the business pattern, the managerial pattern, and the informal pattern.
- \_\_\_\_\_ 170. A strategic alliance is
- an organizational relationship that links two separate businesses.
  - an unimportant organizational form in today's business environment.
  - an attempt to duplicate efforts between two firms.
  - a strategy that, as a result of its unwieldy nature, is falling from practice.
- \_\_\_\_\_ 171. Traditionally, marketing philosophies have been categorized as
- consumer-oriented and market-oriented.
  - consumer-oriented, product-oriented, market-oriented, and volume-oriented.
  - consumer-oriented, market-oriented, sales-oriented, and process-oriented.
  - consumer-oriented, production-oriented, and sales-oriented.

- \_\_\_\_\_ 172. Compared to large corporations, small businesses
- play just as important a part in the economy.
  - attract more attention and make more headlines in the media.
  - are not as important to the well-being of society.
  - are highly visible.
- \_\_\_\_\_ 173. The sales forecasting procedure in which the forecaster begins with a variable that has a very large scope and then systematically works down to the sales forecast is known as the
- breakdown process.
  - buildup process.
  - chain-linkage method.
  - bottom-up method.
- \_\_\_\_\_ 174. Which of the following family members are less frequently involved in family businesses in the United States?
- in-laws
  - parents
  - spouses
  - siblings
- \_\_\_\_\_ 175. Trade between the United States and Mexico has increased since the enactment of the North American Free Trade Agreement. This factor is related to the \_\_\_\_\_ element of the general environment.
- technological
  - global
  - ecological
  - sociocultural
- \_\_\_\_\_ 176. In a limited partnership, which of the following remains bound by all debts of the business?
- Limited partner
  - Special partner
  - Partner with the greatest capital investment
  - General partner
- \_\_\_\_\_ 177. When is a company a family business?
- When decisions at work have an impact on ones family
  - When a number of family members are employed by the same company
  - When a parent is in a good position to give career advice to a son or daughter
  - When two or more members of a family are involved in a firm's ownership and functioning
- \_\_\_\_\_ 178. The ethical influence of a leader of a small business is
- relatively minor.
  - overpowered by profit concerns of stockholders.
  - less important than the views of others within the firm.
  - more pronounced than that of a leader of a large corporation.
- \_\_\_\_\_ 179. Both investors and lenders use the business plan to better understand the
- type of product or service offered by the new venture.
  - probability that interest rates will rise or fall in the future.
  - potential of other competitors in the same line of business.
  - range of business opportunities available at a given point in time.

- \_\_\_\_\_ 180. For manufacturers, which of the following is a top priority in location decisions?
- Personal preference
  - Environmental conditions
  - Closeness to raw materials
  - Customer accessibility
- \_\_\_\_\_ 181. An entity or individual granted the right to conduct business according to specified methods and terms of another party is known as a
- franchisor.
  - franchisee.
  - franchise.
  - licensee.
- \_\_\_\_\_ 182. Operating profit margins of expanding businesses tend to suffer in the short run because
- variable operating costs increase.
  - fixed operating costs increase.
  - economies of scale increase costs.
  - additional investment capital costs are always higher
- \_\_\_\_\_ 183. A person who starts a business is classified as a
- founder.
  - general manager.
  - franchisee.
  - marginal-firm manager.
- \_\_\_\_\_ 184. Facilities that rent space only to new businesses and that provide services for them are called
- industrial parks.
  - community development centers.
  - shopping centers.
  - business incubators.
- \_\_\_\_\_ 185. A variation of the content model is sometimes called the \_\_\_\_\_ model.
- information
  - sales
  - advertising detail
  - market identification
- \_\_\_\_\_ 186. The purchase price of a business is determined by negotiation between
- lender and seller.
  - seller and broker.
  - buyer and seller.
  - lender and buyer.
- \_\_\_\_\_ 187. In a small business, the most important key to ethical performance is
- a code of ethics.
  - the personal integrity of the founder or owner.
  - a training program based on the code of ethics.
  - the amount of legislation affecting the organization.
- \_\_\_\_\_ 188. When bankers look for evidence of whether a business will be able to repay a loan, they usually base their assessment of this on
- what the firm has done in the past.
  - what the owner says the firm will do in the future.
  - the opinion of investment analysts.
  - the business plan of the enterprise.

- \_\_\_\_\_ 189. The answer to the question of whether you need a business plan is
- “It just depends.”
  - “It’s imperative.”
  - “It’s requisite for success.”
  - “It’s a no-brainer.”
- \_\_\_\_\_ 190. Investors who read business plans can be described as
- one-minute investors.
  - two-hour investors.
  - half-day investors.
  - weekend investors.
- \_\_\_\_\_ 191. Which of the following is *least* likely to be a problem for the founder of a small manufacturing firm, in passing the business on to his or her son or daughter?
- Avoiding favoritism among children
  - Preventing the business relationship from damaging the parent-child relationship
  - Motivating the son or daughter to take an interest in the business
  - Introducing the son or daughter to key people, especially outsiders such as bankers
- \_\_\_\_\_ 192. According to Peter Drucker, the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth is
- creativity.
  - innovation.
  - capital spending.
  - collaborating with competitors.
- \_\_\_\_\_ 193. In the event of corporate failure, which of the following types of stock can be treated as an ordinary tax-deductible loss?
- Section 1744 stock
  - Common stock
  - Preferred stock
  - Section 1244 stock
- \_\_\_\_\_ 194. Post-harvest entrepreneurs may become disillusioned when they realize their sense of identity
- was associated with the quest for wealth.
  - derived from interactions with employees.
  - was intertwined with their business.
  - does not return after joining in social or charitable work.
- \_\_\_\_\_ 195. Equity investors cannot demand more than
- those who have invested debt in the enterprise.
  - what is earned.
  - anticipated future financing.
  - established cash flows.
- \_\_\_\_\_ 196. A good reason for relocating a typical manufacturing business is to
- stabilize income taxes.
  - increase customer traffic.
  - get closer to raw materials.
  - provide free-flow space.
- \_\_\_\_\_ 197. In a location decision, the raw materials availability factor is particularly important for a
- CPA.
  - manufacturer.
  - management consultant.
  - venture capitalist.

Name: \_\_\_\_\_

ID: B

- \_\_\_\_ 198. A focus strategy is best described as
- an attempt to compete directly with industry giants.
  - a domestic marketing strategy.
  - a strategy that isolates the firm from market forces.
  - targeting the high end of a market.
- \_\_\_\_ 199. Which of the following is *not* included on a cash flow statement?
- Collections from customers
  - Payments to suppliers
  - Cash tax payments
  - Existing fixed assets such as machinery
- \_\_\_\_ 200. Individuals are typically pulled toward entrepreneurship by the hope of obtaining
- an easy life.
  - financial rewards.
  - freedom from long hours.
  - job security.