

***Entrepreneurship: Starting and Operating a Small Business, 5e (Glackin/NFTE)***  
**Chapter 1 Entrepreneurs and Entrepreneurship**

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

Learning Objective: 1.1 Summarize what entrepreneurship is and what entrepreneurs do.

AACSB: Reflective Thinking

2) Entrepreneurs are often both owners and \_\_\_\_\_.

- A) creditors
- B) employees
- C) customers
- D) suppliers

Answer: B

Diff: 2

Learning Objective: 1.1 Summarize what entrepreneurship is and what entrepreneurs do.

AACSB: Reflective Thinking

3) A necessity-based entrepreneur starts a business to exploit a perceived opportunity or to pursue one that they created.

Answer: FALSE

Diff: 1

Learning Objective: 1.1 Summarize what entrepreneurship is and what entrepreneurs do.

AACSB: 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 that entrepreneurs "added value to scarce resources".

Diff: 3

Learning Objective: 1.1 Summarize what entrepreneurship is and what entrepreneurs do.

AACSB: Analytical Thinking

5) The economy of the United States is a \_\_\_\_\_ system.

- A) free-enterprise
- B) controlled
- C) closed
- D) centralized

Answer: A

Diff: 1

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: 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

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: 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

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: 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

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Reflective Thinking

9) The U.S. 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

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: 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

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Reflective Thinking

11) Which of the following is **not** a characteristic of the free-market system?

- A) Individuals and companies may compete for their own economic gains.
- B) Private wealth and property ownership are permissible.
- C) Prices are determined by a central authority.
- D) Free-market forces primarily determine prices.

Answer: C

Diff: 3

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Analytical Thinking

12) The free-market system is also called \_\_\_\_\_.

- A) volunteerism
- B) socialism
- C) capitalism
- D) dogmatism

Answer: C

Diff: 1

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Reflective Thinking

13) Benefits of becoming an entrepreneur include independence, satisfaction, financial reward, self-esteem, and contributions to society.

Answer: TRUE

Diff: 2

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Analytical Thinking

14) The economy of the United States is a free-enterprise system.

Answer: TRUE

Diff: 1

Learning Objective: 1.2 Examine how free-enterprise economies work and how entrepreneurs fit into them.

AACSB: Analytical Thinking

15) Most of the world's businesses are \_\_\_\_\_ businesses.

A) small

B) medium-sized

C) large

D) family-owned

Answer: A

Diff: 1

Learning Objective: 1.3 Describe small business.

AACSB: Analytical Thinking

16) 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

B) 100; 10

C) 500; 5

D) 500; 10

Answer: C

Diff: 2

Learning Objective: 1.3 Describe small business.

AACSB: Analytical Thinking

17) Some of the world's greatest entrepreneurs have overcome challenges from their childhood and youth, including all of these **except** \_\_\_\_\_.

A) learning disabilities

B) abuse

C) extreme poverty

D) financial prosperity

Answer: D

Diff: 3

Learning Objective: 1.3 Describe small business.

AACSB: Reflective Thinking

18) The corporate equivalent of paying owners a portion of the business's profits is called a \_\_\_\_\_.

- A) bonus
- B) dividend
- C) capital
- D) revenue

Answer: B

Diff: 3

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Reflective Thinking

19) 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

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Analytical Thinking

20) 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

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Analytical Thinking

21) 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

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Reflective Thinking

22) 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

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Reflective Thinking

23) 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

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Analytical Thinking

24) 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.

Diff: 3

Learning Objective: 1.4 Understand the costs and benefits of entrepreneurship.

AACSB: Reflective Thinking

25) As a start-up, Uber has a current market valuation of over \$50 billion. Uber is an example of a(n) \_\_\_\_\_.

- A) unicorn
- B) lifestyle business
- C) intrapreneurship venture
- D) microenterprise

Answer: A

Diff: 2

Learning Objective: 1.5 Recognize the various entrepreneurial options.

AACSB: Reflective Thinking

26) 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

Learning Objective: 1.5 Recognize the various entrepreneurial options.

AACSB: Reflective Thinking

27) 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

Learning Objective: 1.6 Identify and evaluate opportunities to start your own business.

AACSB: Analytical Thinking

28) Entrepreneurs view problems as a(n) \_\_\_\_\_.

- A) roadblock
- B) opportunity
- C) hurdle
- D) challenge

Answer: B

Diff: 3

Learning Objective: 1.6 Identify and evaluate opportunities to start your own business.

AACSB: Reflective Thinking

29) 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 on 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

Learning Objective: 1.6 Identify and evaluate opportunities to start your own business.

AACSB: Analytical Thinking

30) 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

Learning Objective: 1.6 Identify and evaluate opportunities to start your own business.

AACSB: Reflective Thinking

31) 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

Learning Objective: 1.7 Distinguish between ideas and opportunities.

AACSB: Analytical 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

Learning Objective: 1.7 Distinguish between ideas and opportunities.

AACSB: Application of Knowledge

33) A(n) \_\_\_\_\_ is an idea that is based on what customers need or want and are willing to buy sufficiently often at a high enough price to sustain a business.

- A) opportunity
- B) idea
- C) strategy
- D) All of the above.

Answer: A

Diff: 3

Learning Objective: 1.7 Distinguish between ideas and opportunities.

AACSB: Analytical Thinking

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

Learning Objective: 1.7 Distinguish between ideas and opportunities.

AACSB: Analytical Thinking

35) A(n) \_\_\_\_\_ is a legal and commercial relationship between the owner of a trademark, a service mark, trade name, or advertising symbol and an individual or group seeking to use that identification in a business.

- A) franchise
- B) idea
- C) venture
- D) opportunity

Answer: A

Diff: 3

Learning Objective: 1.8 Explore the multiple paths to entrepreneurship.

AACSB: Analytical Thinking

36) In selling an existing business, due diligence is the exercise of reasonable care in the evaluation of the business opportunity.

Answer: FALSE

Diff: 3

Learning Objective: 1.8 Explore the multiple paths to entrepreneurship.

AACSB: Analytical Thinking

37) The two primary forms of franchising are product/trade name franchising and business format franchising.

Answer: TRUE

Diff: 3

Learning Objective: 1.8 Explore the multiple paths to entrepreneurship.

AACSB: Analytical Thinking

38) When you license a technology, you enter into a contract to use it by purchasing the right to own it.

Answer: FALSE

Diff: 3

Learning Objective: 1.8 Explore the multiple paths to entrepreneurship.

AACSB: Analytical Thinking

39) If a business is not making a profit, the entrepreneur knows that \_\_\_\_\_.

A) no one wants to buy the product/service

B) (s)he 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

Learning Objective: 1.9 Explain success signals for entrepreneurs.

AACSB: Analytical Thinking

40) Profit results from the entrepreneur's choices. In this concept, there is a term called "trade-off." With the help of an example, explain what is meant by a "trade-off."

Answer: In business, trade-off is the act of giving up one thing for another. This is the choice that entrepreneurs make all the time and trade-offs affect the profitability of the enterprise. A common example of a trade-off that many entrepreneurs in the food business face is in the choice of ingredients. Let's suppose that oil is a key ingredient in the product that an entrepreneur makes. Let's say that olive oil costs one and a half times more than canola oil. If the entrepreneur believes that there are only minor taste differences between the two oils, a trade-off is whether to reduce cost by switching to canola oil, although doing that may have a small effect on the taste of the product. What the entrepreneur is giving up in taste, (s)he is gaining in profits.

Diff: 2

Learning Objective: 1.9 Explain success signals for entrepreneurs.

AACSB: Analytical Thinking