

Chapter 5 Small Business, Entrepreneurship, and Franchising

True/False Questions

1) Entrepreneurship is the process of creating and managing a business to achieve desired objectives.

True False

2) One of the most significant drawbacks of small businesses is their inability to innovate and to bring significant benefits to customers.

True False

3) Retailing attracts entrepreneurs because gaining experience and exposure in retailing is relatively easy.

True False

4) A term used to describe businesses that depend heavily on advanced scientific and engineering knowledge is new technology.

True False

5) The sharing economy appeals to those who prefer working full time in the service sector.

True False

6) One advantage of a small business is that it can introduce a new product in a short period of time.

True False

7) Fear of failure is the most common concern when starting a business.

True False

8) Marta started her auto body shop with money she had saved from a small inheritance. When she began to have costly equipment issues, she quickly ran out of money. This is a case of undercapitalization.

True False

9) A benefit of franchising is the ability to operate under standardized operations.

True False

10) The largest employer of legal immigrants in the United States is in health-care services

True False

Multiple Choice Questions

11) Mi Sun is a taekwondo expert who starts her own martial arts training academy. She conducts taekwondo classes for women and teaches them the art of self-defense. Mi Sun can be regarded as

- A) a shareholder.
- B) an entrepreneur.
- C) an investor.
- D) a corporate employee.
- E) an inventor.

12) Sheryl and Harry recently had their first child. As two working parents, they struggled to find good, economical child care. As a result, they decided to rent out the basement of their home to a daycare, so they could get reduced-cost child care. This is an example of the

- A) sharing economy.
- B) market segment economy.
- C) service economy.
- D) retail economy.
- E) consumer economy.

13) Growing up, Casey noticed that many families in his community struggled to make ends meet and provide for their children's education. As a result, after he finished school, he started a business to provide low-cost tutoring and scholarship opportunities for low-income families in his community. As his company has grown, Casey has been able to extend free tutoring and college scholarships to five impoverished students per year. Casey is a

- A) nonprofit entrepreneur.
- B) profit entrepreneur.
- C) social entrepreneur.
- D) sharing entrepreneur.
- E) macroentrepreneur.

14) A _____ is best described as any independently owned and operated business that is not dominant in its competitive area and does not employ more than 500 people.

- A) publicly owned business
- B) limited liability company
- C) small business
- D) publicly traded company
- E) conglomerate

15) Michelangelo owns a small catering business that mostly serves his community. He has been hired for company picnics, backyard barbecues, and family celebrations. As word of mouth has spread about his delicious food, good service, and fair prices, he has started getting more business. To handle this, he has hired four employees to help cook and serve food at these

events. What kind of entrepreneur is Michelangelo?

- A) a macroentrepreneur
- B) a social entrepreneur
- C) a sharing entrepreneur
- D) a gig entrepreneur
- E) a microentrepreneur

16) Victor runs Bizz, his own event management company, which frequently organizes large corporate events. He has built a good reputation for organizing corporate events with a fair degree of professionalism at reasonable costs. He works out of his own house with a staff of about 55 employees. Victor's company can be categorized as a

- A) macropreneur.
- B) limited liability company.
- C) franchise.
- D) micropreneur.
- E) small business.

17) The Small Business Administration is

- A) a body established by the U.S. Chamber of Commerce to encourage the intrapreneurial spirit in small businesses.
- B) an independent agency of the federal government that offers managerial and financial assistance to small businesses.
- C) an independent agency created under the General Agreement on Tariffs and Trade to protect small businesses against competition from larger companies.
- D) a division of the federal government that is responsible for ensuring that newly formed businesses adhere to the law.
- E) a U.S. congressional agency that regulates the issue of stocks by small businesses.

18) Sareena owns a Lebanese restaurant that employs around 25 people. She is solely responsible for the management of the restaurant. Her business competes with a larger chain of restaurants that offer the same cuisine. Sareena's restaurant can be classified as a

- A) multinational corporation.
- B) conglomerate.
- C) franchise.
- D) public sector holding.
- E) small business.

19) When Marco first moved from Mexico to the United States, he struggled to find and keep work because he couldn't speak English fluently. After learning English, he started a new business to help other Mexican Americans learn English and to help place them in jobs. Marco's business is a

- A) minority-owned conglomerate.
- B) minority-owned small business.
- C) small exporting business.
- D) small importing business.
- E) minority macropreneurship.

20) What percentage of all U.S. businesses are classified as small businesses?

- A) 30%
- B) 45%
- C) 60%
- D) 85%
- E) 99%

21) Music and Melody, an independent music store, acquires instruments and other music equipment from producers and wholesalers and sells them to consumers. Music and Melody is a

- A) manufacturer.
- B) wholesaler.
- C) retailer.
- D) direct sales company.
- E) direct marketing company.

22) Mercy and Diego are entrepreneurs who want to start their own business. Which of the following would attract them to retailing?

- A) Gaining experience in retail is a challenge, so they would have less competition.
- B) There are no costs associated with opening a retail business.
- C) Retailing doesn't require interacting directly with consumers.
- D) Retailing requires low initial financing.
- E) Retailing limits a firm's need to focus on specific groups of consumers.

23) Many opportunities exist for _____, which involves selling products outside of a retail facility.

- A) external retailing
- B) wholesaling
- C) direct retailing
- D) manufacturing
- E) nonstore retailing

24) Isabella makes unique clothing pieces, jewelry, and hair accessories. To avoid the costs of opening a store, she sells these pieces on Etsy. This is an example of

- A) providing services.
- B) manufacturing.
- C) wholesaling.
- D) direct selling.
- E) direct marketing.

25) Clothes By You, a clothing store in the mall, wants to give customers an opportunity to place orders. What is one form of direct marketing the store can use to provide this service?

- A) It can send catalogs to its customers.
- B) It can send sales associates door to door to sell its clothing.
- C) It can open additional store locations.
- D) It can create call centers to contact customers at home.
- E) It can customize its clothing to meet specific customer needs.

26) While Beau attends college, he is working part-time for a life insurance company. He goes door to door and offers consumers face to face presentations in their homes. This is an example of

- A) direct selling.
- B) direct marketing.
- C) wholesaling.
- D) manufacturing.
- E) providing a service.

27) All of the following are true of direct selling EXCEPT

- A) the cost of getting involved is low.
- B) it can be done part-time.
- C) it requires a large investment in inventory.
- D) those who do it receive commissions on their sales.
- E) those who do it have the opportunity to recruit other distributors.

28) Which of the following best illustrates a small business operating in a retail industry as opposed to wholesaling its products?

- A) Janet bakes cakes and sells them to other restaurants and cafes in malls.
- B) BC Inc. manufactures stationery and sells it in bulk to book shops and supermarkets.
- C) Pink Cult, an apparel company, sells its merchandise through True deals.com.
- D) Wax Creations Inc. imports candles and directly sells them to customers through kiosks.
- E) Auto Line Inc. manufactures component parts of cars and sells them to automobile companies.

29) Which of the following is true of wholesalers?

- A) Wholesalers cannot be eliminated because their functions are too important.
- B) Wholesalers receive their products from retailers.
- C) Wholesalers do not provide management or merchandising assistance to clients.
- D) Wholesalers do not perform marketing activities.
- E) Wholesalers provide both goods and services to producers and retailers.

30) Many service providers are considered retailers because they

- A) require a high initial start-up cost.
- B) provide their services directly to ultimate consumers.
- C) sell their services from a single store location.
- D) focus on large market segments and institutional buyers.
- E) employ only a small number of people.

31) Jason owns a barbershop that specializes in men's haircuts and shaving. This is an example of a

- A) manufacturing business.
- B) wholesaler.
- C) micro retailer.
- D) service business.
- E) direct selling business.

32) In the manufacturing sector, small businesses sometimes have an advantage over large firms because small businesses

- A) are exempted from paying taxes in most countries.
- B) can customize products to meet specific customer needs and wants.
- C) have better access to highly-skilled workers.
- D) can mass produce and supply goods in bulk.
- E) have better access to funds and can invest on sophisticated equipment.

33) Which of the following is a difference between high technology businesses and other small businesses?

- A) High technology businesses never start in garages, basements, kitchens, or dorm rooms, while some other types of small businesses can start in these places.
- B) High technology businesses require greater capital and have higher initial startup costs than other small businesses.
- C) High technology businesses are less innovative than other small businesses.
- D) High technology businesses are the only type of small business that uses technology.
- E) High technology businesses have lower initial startup costs than other small businesses.

34) Brad and Sean live and work in Texas, but they love vacationing in Hawaii. They go there as often as time and money will allow. Finally, they take the plunge and buy a vacation home in Hawaii. When they aren't there, they rent the property to other people for \$1000 per week. This is an example of

- A) a service business.
- B) direct selling.
- C) social entrepreneurship.
- D) the sharing economy.
- E) retailing.

35) Which of the following is a challenge associated with the sharing economy?

- A) pressure over whether workers are independent contractors or employees
- B) the higher cost of services through this model
- C) competition from established firms
- D) inability to set rates
- E) lack of flexibility

36) Which of the following traits will help entrepreneurs succeed?

- A) risk aversion
- B) introversion
- C) persistence
- D) impulsiveness
- E) neuroticism

37) One of the major reasons people want to own and operate their own business is to

- A) avoid the risk of competition.
- B) be their own boss.
- C) avoid multitasking.

- D) reduce stress levels.
- E) avoid direct responsibility of the operations.

38) Which of the following is an advantage of a small business?

- A) greater adaptability to changing market demands
- B) the support that an office provides
- C) more money available for wages and salaries, rent, utilities, and other expenses
- D) the opportunity to compete in the mass market or for large market segments
- E) multiple layers of management to help make difficult decisions

39) Simitri has worked for a large corporation for years, and he feels like he just doesn't fit in the "corporate mold" anymore. He decides to start his own business because he wants the freedom to choose whom he works with and when and where he works. What advantage of small business ownership seems the most prevalent in this example?

- A) costs
- B) independence
- C) flexibility
- D) focus
- E) reputation

40) White Carpet Inc. is a small apparel store started by an aspiring designer. The store needs to compete against larger, well-established, multinational brands. Which of the following strategies will most help White Carpet Inc. avoid competition from larger firms?

- A) White Carpet Inc. should have multiple levels of management like the larger firms.
- B) White Carpet Inc. should target large market segments that the competitors serve.
- C) White Carpet Inc. should expand the scale of production to enjoy greater economies of scale.
- D) White Carpet Inc. should start to work with customers only when the products are ready for sale.
- E) White Carpet Inc. should focus on and target small market niches or product needs.

41) Abigail is an animal lover and vegetarian. Frustrated by trying to find vegetarian substitutes for commonly needed items, she has started her own vegetarian boutique. Her store sells vegetarian food, shoes, toiletries, and many other items. Which advantage of small-business ownership is this scenario most closely related to?

- A) reputation
- B) independence
- C) focus
- D) costs
- E) flexibility

42) Which of the following is one of the difficulties faced by small business owners?

- A) high cost of formation
- B) bureaucratic decision-making process
- C) inability to focus on specific groups of customers
- D) worries about employee problems or competition
- E) limited scope for innovation

43) Alejandro owns a gluten-free bakery. In addition to being the owner, he also serves as the manager, sales force, head baker, shipping and receiving clerk, bookkeeper, and custodian. Alejandro is the first person to arrive at the bakery every morning and the last to leave every night. Which of the following is the most applicable challenge Alejandro faces?

- A) lack of funding
- B) pricing mistakes
- C) a high stress level
- D) underestimating the time commitment for success
- E) having poor business concepts

44) When a small business begins to see significant growth, it requires the owner to

- A) give up a certain amount of direct authority.
- B) decrease the levels of management.
- C) disregard narrow niches.
- D) reduce the workforce.
- E) delay decision making.

45) Which of the following is a reason behind the failure of small businesses?

- A) overcapitalization
- B) coping with growth
- C) managerial experience
- D) poor business concept
- E) high costs of start-up

46) Cravin is an avid genealogy buff. He wants to open a store and workshop where he teaches people how to trace their family history and provides tools for doing so. What must he do first to make sure this business will succeed?

- A) He must find suppliers who are willing to take a chance on his genealogy business.
- B) He must identify whether a genuine market niche exists for genealogy.
- C) He must convince the community that genealogy is a worthwhile hobby.
- D) He must convince the community to donate funds to help him start his genealogy business.
- E) He must find partners to help him fund his genealogy business.

47) Mai has decided to open a Vietnamese restaurant in her neighborhood. She will be solely responsible for the management of the restaurant. Which of the following problems is she likely to face while running the business?

- A) She will find it difficult to make quick decisions.
- B) Her business will not be able to quickly adapt to changing market demands.
- C) Her restaurant may not be able to focus on a specific group of customers.
- D) She will not have the flexibility to make in critical decisions independently.
- E) She may find it difficult to deal with the stress of rent increase.

48) _____ is best described as the lack of funds to operate a business normally.

- A) Debt financing
- B) Trade credit
- C) Franchising

- D) Trade deficit
- E) Undercapitalization

49) Wilbur and Fred run a small farm stand on their property, selling vegetables, fruits, plants, and eggs to support themselves. During a particularly bad season, they tried to get financing from a small rural bank in their community. However, they were unable to obtain financing because

- A) the small rural bank believed that their business lacked the flexibility to adapt to changing market demands.
- B) they required a huge sum of money to compete in the mass market.
- C) government regulations do not permit financing small rural businesses.
- D) the small rural bank lacked the necessary assets to counter the risks involved with small-business loans.
- E) rural communities have various business guidelines that prohibit rural banks from financing small businesses.

50) Raphael is an artist who wants to turn his art into a small business. He had the great idea to go to other hobby-based businesses in his community and give painting lessons to their clients. First, he went to a local stable and taught its boarders how to paint portraits of their horses. Then, he went to a local dance studio and taught its patrons how to paint their dream dance costumes. Based on the buzz created by his new business, several other local businesses want to hire Raphael. What is one area where he may struggle in managing his new business?

- A) He may get stuck in a market niche.
- B) He may lack the flexibility to adapt to changing market demands.
- C) He may have trouble managing all the money he will make from the start.
- D) He may lack the skills and experience to make good management decisions.
- E) He may focus too much on management and not enough on his great product ideas.

51) Gerard started a business using the savings from his previous job. He planned to run his business on the revenue generated from sales. However, a few months later, he found it difficult to pay his staff, rent, and other expenses. Seasonal sales and inability to secure sufficient credit from local banks made it difficult for Gerard to operate the business normally. Which of the following causes of small-business failure does this scenario best illustrate?

- A) undercapitalization
- B) trade credit
- C) economies of scale
- D) debt financing
- E) debt factoring

52) Which of the following is the shortest path to failure in business?

- A) inflexibility
- B) undercapitalization
- C) rent increases
- D) competition
- E) changing market demand

53) Phuong is a very talented engineering student who starts her own small software development firm. She finances the firm from her savings. Initially, she is able to get many projects from customers and completes them successfully. However, as her business grows, she fails to make good decisions in hiring new employees, billing the clients, and negotiating prices. She eventually ends up liquidating the business. Which of the following causes of small-business failure does this scenario best illustrate?

- A) undercapitalization
- B) managerial inexperience
- C) economies of scale
- D) debt financing
- E) debt factoring

54) Sofia opens a fashion boutique with the money she inherited from her parents. She is successful in creating a strong brand image and a loyal customer base. In order to meet the increasing demands of her business, she hires a store manager. However, she finds it hard to let the manager make important decisions about the store. She often finds herself disagreeing with the manager's decisions, and in the process, she loses a lot of existing customers. Which of the following causes of small-business failure does this scenario best illustrate?

- A) undercapitalization
- B) inability to cope with growth
- C) diseconomies of scale
- D) debt financing
- E) debt factoring

55) Tiffany recently started a small firm that manufactures for leading fashion brands in the United States. Which of the following would likely be an immediate threat to this firm?

- A) rapidly advancing technology
- B) rising entrepreneurial spirit
- C) reducing imports
- D) rising inflation
- E) increasing exports

56) It has often been said that the greatest impediment to the success of a small business is the

- A) entrepreneur.
- B) government.
- C) competition.
- D) business environment.
- E) lack of funding.

57) Meredith wants to start her own small business. All of the following are things she needs to do before she starts her business EXCEPT

- A) hire employees to work for the business.
- B) have a general idea for the business.
- C) devise a strategy to guide planning and development in the business.
- D) make decisions about form of ownership.
- E) make decisions about financial resources needed.

58) A precise statement of the rationale for a business and a step-by-step explanation of how it will achieve its goals is known as

- A) a promissory note.
- B) an article of incorporation.
- C) a business plan.
- D) a business agreement.
- E) an article of partnership.

59) Which of the following statements is true of a business plan?

- A) Small businesses do not need a business plan.
- B) It does not have to be revised periodically.
- C) Every business needs to mandatorily maintain a business plan as per government regulations.
- D) It should establish a strategy for acquiring sufficient funds to keep a business going.
- E) It is created to limit a business's flexibility and decision-making ability.

60) Sarah is starting her own house painting company, Pickett Fence Painting. She is working on developing the company's business plan. Which of the following is something the business plan should accomplish?

- A) limiting the business's flexibility
- B) estimating the business's income and expenses
- C) permanently setting the business's goals and strategies
- D) establishing rules and regulations for how the business will be run
- E) eliminating any future weaknesses of the business

61) Arnold approached a bank to get a loan for a business he planned to launch later that year. He explained his business idea and its capital requirements to the bank manager. The manager asked Arnold to provide a formal document that included a rationale for the business, an explanation of how it will achieve its goals, an analysis of the competition, and estimates of income and expenses, among other information. Which of the following documents does the bank expect from Arnold in this scenario?

- A) a business plan
- B) a cash flow statement
- C) a promissory note
- D) a balance sheet
- E) a marketing plan

62) In the process of starting a business, the step that immediately follows the development of a business plan involves

- A) organizing resources like labor and supplies.
- B) developing some general business ideas.
- C) deciding an appropriate legal form of business ownership.
- D) promoting the business to the customers.
- E) filing for tax returns for the business with the Internal Revenue Service.

63) To make profits from a small business, the owner must first provide or obtain _____ to start the business and keep it running smoothly.

- A) products
- B) employees
- C) profits
- D) supplies
- E) capital

64) Marcia is opening her own small retail store that sells women's purses and accessories. To start her business, she needs at least \$50,000 in initial financing to do all of the following EXCEPT

- A) pay off any debts so they don't affect her business.
- B) rent space.
- C) purchase or lease equipment and furnishings.
- D) buy the initial inventory.
- E) provide working capital.

65) Samar has started a new zip-line business in Jamaica. What is the most important source of funds for this new business?

- A) Samar, the owner
- B) the government
- C) a financial institution
- D) the Small Business Administration
- E) a venture capitalist

66) The act of financing one's business by using real personal assets is known as

- A) debt financing.
- B) factoring.
- C) franchising.
- D) equity financing.
- E) bootlegging.

67) Which of the following is a source of equity financing?

- A) securing government loans
- B) selling personal assets to raise funds
- C) borrowing money from friends
- D) securing short-term loans from a family member
- E) receiving trade credit from suppliers

68) Walter sold a piece of land he inherited from his grandparents and started a business with the proceeds. Which of the following sources has Walter used to raise funds for his business?

- A) equity financing
- B) debt financing
- C) venture capital
- D) initial public offering
- E) angel investment

69) Nadim wants to start a small moving company. He has enough funds to start the business, but not enough to run it effectively. What is one thing he can do to provide working capital to his company?

- A) He can use his profits to pay his salary.
- B) He can borrow funds from outside sources.
- C) He can refrain from drawing a full salary.
- D) He can invest his profits into other businesses.
- E) He can work to find venture capitalists to support his business.

70) Derek borrowed \$50,000 from his mother for his new business venture. He promised that she would be a partner in the business and would be entitled to a significant percent of profits from the business at the end of the year. This is an example of

- A) franchising.
- B) bartering.
- C) equity financing.
- D) initial public offering.
- E) bootlegging.

71) Alanis works in a factory that manufactures decorative accessories for office spaces, hotels, and designer homes. She wants to start her own business because she believes that the market for decorative products has a great growth potential. However, she does not want to depend on anyone else for procuring the initial capital and would like to raise the amount herself. In this scenario, which of the following methods could Alanis adopt to raise funds through equity financing?

- A) Alanis could secure a mortgage from a family member or friend.
- B) Alanis could secure a loan from the Small Business Administration.
- C) Alanis could ask for a line of credit from her bank.
- D) Alanis could invest her savings in the new business.
- E) Alanis could ask suppliers for a longer trade credit.

72) Sue and Christy are business partners, and their company manufactures portable solar panels. They initially started the business with their savings. However, now the company plans to expand its operations, and the required amount of capital cannot be raised through savings or by reinvesting profits. Thus, the partners have decided to sell stock in their business to family members, friends, and employees. Which of the following sources of capital have Sue and Christy planned to use for the expansion of their business?

- A) debt financing
- B) bootstrapping
- C) equity financing
- D) mortgaging
- E) factoring

73) Persons or organizations that agree to provide some funds for a new business in exchange for ownership interest or stock are called

- A) intrapreneurs.
- B) category captains.
- C) venture capitalists.
- D) trade debtors.
- E) franchisers.

74) Ramon funds small businesses that he believes have the potential to grow large. When these companies are still in their initial stages and need investment, he buys their stocks at a low price and later sells them at higher prices when they are successful. Thus, Ramon is a(n)

- A) intrapreneur.
- B) trade creditor.
- C) franchisee.
- D) venture capitalist.
- E) franchiser.

75) Allison's flooring store requires more financing than she can provide from her savings. As a result, she is looking for investors to provide financing in exchange for stock ownership. What is a disadvantage of this arrangement?

- A) Allison may lose her business to venture capitalists.
- B) Allison will have to give complete control of her business to the investors until she can pay them back.
- C) Allison will have to share the profits of her business.
- D) Allison may not be able to find venture capitalists who will pay the high prices she is asking for her stock.
- E) Allison could lose her personal assets if the company isn't profitable.

76) Obtaining money from venture capitalists to start a new business venture is an example of

- A) debt financing.
- B) bootstrapping.
- C) equity financing.
- D) mortgaging.
- E) factoring.

77) What is the main supplier of external financing to small businesses?

- A) venture capitalists
- B) banks
- C) family members
- D) friends
- E) the Small Business Administration

78) Securing a mortgage from a bank for a new business venture is an example of

- A) equity financing.
- B) venture capitalism.
- C) debt financing.
- D) trade credits.
- E) collaterals.

79) Jordan has requested financing from the bank for his medical marijuana store. The bank requires Jordan to put up a financial interest in the property or fixtures of the business to guarantee payment of the debt. What is this financial interest called?

- A) collateral
- B) venture capital
- C) trade credit
- D) business plan
- E) cash flow statement

80) If a small business fails to repay a bank loan, what will the lending institution do to recover its loss?

- A) take over the business and keep profits
- B) claim and rent out the business
- C) sell stock in the business
- D) claim and sell the collateral or mortgage
- E) claim and sell all the owner's personal property

81) Banks and other financial institutions can grant a small business a _____, which is an agreement by which a financial institution promises to lend a business a predetermined sum on demand.

- A) line of credit
- B) trade credit
- C) mutual fund
- D) non-recourse loan
- E) trust fund

82) Small businesses may obtain funding from their suppliers in the form of a _____, which means that suppliers allow the business to take possession of the needed goods and services and pay for them at a later date or in installments.

- A) trust fund
- B) trade credit
- C) stock dividend
- D) non-recourse loan
- E) mutual fund

83) Anisha, an entrepreneur, starts a real estate firm with very limited funds. In order to conduct business, she purchases a few laptops, LED screens, and other office equipment from a local electronics wholesaler. The wholesaler understands her financial situation and allows her to pay for the goods in installments. In this scenario, the type of funding obtained by Anisha can be regarded as a

- A) line of credit.
- B) trade credit.
- C) business subsidy.
- D) non-recourse loan.
- E) working capital loan.

84) Neehara recently opened a premium bakery. She did not have enough savings, so she applied for a loan to obtain the additional funds required to start the bakery. She had to provide her house as collateral to obtain the loan. The type of financing obtained by Neehara can be regarded as a

- A) mortgage.
- B) trade credit.
- C) mutual fund.
- D) non-recourse loan.
- E) dividend.

85) Which of the following statements best describes bartering?

- A) It is the practice of small businesses trading their own products for the goods and services offered by other businesses.
- B) It is an agreement by which a financial institution promises to lend a business a predetermined sum on demand.
- C) It is the process in which suppliers allow a business to acquire needed goods and pay for them at a later date.
- D) It is the process in which a small-business owner provides personal property as collateral for a loan.
- E) It is a process by which an individual acquires the license to sell another's products or to use another's name in business.

86) Chang is an interior designer who starts his own consulting firm. His friend Rachel is the owner of a coffee shop. Chang decorates Rachel's new coffee shop in exchange for a supply of coffee whenever his clients visit his office. Which of the following sources of funding does this scenario best illustrate?

- A) mortgaging
- B) bartering
- C) trade credit
- D) line of credit
- E) equity financing

87) Lara, a single mother, borrowed some capital for her business from Women Progress Council at an extremely low rate of interest. Which of the following forms of funding a new small business does this scenario best illustrate?

- A) trade credit
- B) equity financing
- C) venture capital
- D) debt financing
- E) crowd sourcing

88) Andrew, a pharmacist, realized that he should stock extra supplies of a particular medicine to respond to an outbreak of a particular infection in the city. Lacking sufficient capital to purchase the extra inventory, he borrowed a predetermined sum of money from his bank. Which of the following sources of funding does this scenario best illustrate?

- A) trade credit
- B) initial public offering
- C) venture capital
- D) equity financing
- E) line of credit

89) Hester wants to run her own picture framing business, but she doesn't want to start it from scratch. She decides to buy an existing business. What is one advantage of doing this?

- A) It allows her to know the problems the business already has.
- B) It gives her the freedom to develop exactly the business she wants.
- C) It eliminates all the costs Hester would normally have in starting a business.
- D) It provides a built-in network of customers, suppliers, and distributors.
- E) It eliminates all the guesswork inherent in starting a new business.

90) Gary decides to buy an existing home goods store, instead of starting his own from scratch. Once he takes over the business, he learns that several customers have complained that one of the company's distributors doesn't pack items sufficiently for shipping, and their items arrived broken. What is Gary's responsibility in resolving this problem?

- A) Gary is responsible for taking on and resolving any problems the business already has.
- B) Gary is not responsible for problems that existed before he bought the company.
- C) Gary can require the previous owner to resolve this problem.
- D) Gary can expect the customers and distributor to resolve the problem themselves.
- E) Neither Gary nor the previous owner is responsible for resolving this problem.

91) A license to sell another's products or to use another's name in business, or both, is called a

- A) franchise.
- B) cartel.
- C) collateral.
- D) mortgage.
- E) collusion.

92) Since Eva has decided to use her savings to purchase the rights to own and operate a McDonald's outlet rather than starting her own restaurant, she is most likely to be

- A) a trade creditor.
- B) a franchisee.
- C) a category captain.
- D) an intrapreneur.
- E) a venture capitalist.

93) Nate started the first outlet of Dynamix Gym in New York City in 1995. The business expanded over time, and he became the owner of a chain of gyms in New York State. Though the business had potential to expand outside New York, Nate did not want to take the risk or responsibility. Hence, he decided to sell the license to own and operate gyms under the brand name Dynamix Gym to independent owners. In return, he charged them an initial fee and a small share in the monthly profits. In this scenario, Nate is a(n)

- A) trade creditor.
- B) franchisee.
- C) angel investor.
- D) franchiser.
- E) venture capitalist.

94) Which of the following statements is true of franchising?

- A) An individual only acquires the rights to a name and not the rights to methods of operation.
- B) An individual experiences the most freedom in this form of business ownership.
- C) A franchisee receives cash payments from the franchiser on a monthly basis.
- D) A franchisee does not receive accounting support from the franchiser.
- E) A franchisee often receives building specifications and designs from the franchiser.

95) Which of the following statements describes an advantage of franchising instead of building an independent business from scratch?

- A) The time required to set up an independent business is much lower than obtaining a franchise.
- B) A franchise outlet often reaches the break-even point faster than an independent business would.
- C) A franchisee would experience more flexibility in decision making than the owner of an independent business.
- D) The quality of goods and services needs to be more standardized and uniform in an independent business than in franchises.
- E) Access to managerial and financial assistance is more limited in franchises than in independent businesses.

96) All of the following are advantages of franchising EXCEPT

- A) more freedom in business decisions.
- B) brand-name appeal.
- C) national and local advertising programs.
- D) proven products and business formats.
- E) centralized buying power.

97) Stephanie has always dreamed of owning and managing a hotel. Instead of starting her own independent hotel, she decides to buy a franchise from the Marriott. What is one thing she should keep in mind about becoming a franchisee?

- A) It will take a long time to set up her franchise.
- B) It will take longer for her franchise to reach its break-even point than it would take for an independent business.
- C) She will need to buy equipment, pay for training, and obtain a mortgage or lease.
- D) She will have to develop her own processes for operations.
- E) She will have the freedom to make all the necessary business decisions, which may be overwhelming.

98) Which of the following is one of the commonly reported disadvantages of franchising?

- A) lack of management training and assistance
- B) decentralized buying power
- C) low rate of success
- D) restrictions on purchasing
- E) lack of financial assistance

99) Steven opened his own Quiznos franchise in his community. He is pleased with how quickly he was able to open his franchise and that he was able to establish a good customer base from the start because of name recognition. However, since he started this business to be his own boss, he is likely to

- A) be resentful of the management training and support that the franchiser provides.
- B) take sole responsibility for all decisions in the business.
- C) get frustrated with the restrictions of the franchise.
- D) embrace the franchiser's restrictions because they lead to a greater chance for success.
- E) invest his own capital in national and local advertising programs.

100) Axel has recently quit his job as an investment banker because he plans to open a restaurant. He has two options: he can either start his own new restaurant from scratch or purchase a franchise from an already established restaurant or fast food chain. His wife Lisa supports the former plan. Which of the following statements strengthens the argument in favor of Lisa's choice of opening a restaurant independently?

- A) It is easier and faster to build a business from scratch.
- B) It is easier to reach the break-even point through an independent business.
- C) It is more difficult to attract customers in a franchise business as the entrepreneur has to personally build the brand appeal.
- D) It is easier and more flexible to make and execute decisions in an independent business.
- E) It is easier to succeed in a business built from scratch as the products and the business format are already proven.

101) _____ are often the Small Business Administration's principal means of providing direct management assistance to small businesses and entrepreneurs.

- A) Local Chambers of Commerce
- B) Small Business Development Centers
- C) Service Corps of Retired Executives
- D) Small Business Institutes
- E) Active Corps of Executives

102) _____ is (are) a volunteer agency funded by the Small Business Administration to provide advice for owners of small firms.

- A) Local Chambers of Commerce
- B) Small Business Development Centers
- C) Service Corps of Retired Executives
- D) Small Business Institutes
- E) Business Executive Council

103) Samantha owns a small office supply company. In setting up her business, she asks a few other small-business owners she knows for advice on dealing with employees and government regulation, improving processes, and solving problems. What does this scenario exemplify?

- A) consulting
- B) incubating
- C) socializing
- D) relating
- E) networking

104) Which of the following statements is true of baby boomers?

- A) They represent people born between 1930 and 1945.
- B) They are economically backward compared to other Americans.
- C) They are not actively pursued by many small businesses.
- D) They consist of 50 million Americans.
- E) They are an unprofitable market segment.

105) Millennials number around 83 million and represent a huge business opportunity in the United States. Which of the following is a defining feature of millennials?

- A) This cohort is solely concerned about money.
- B) This cohort is opposed to working remotely.
- C) This cohort prefers face-to-face meetings over virtual communication.
- D) This cohort consists of people born between 1946 and 1964.
- E) This cohort is concerned with advancement, recognition, and improved capabilities.

106) Margaret was born in 1952. She is a wealthy Florida native. As she ages, Margaret spends much of her money on travel, financial planning, and health care. Margaret is

- A) a millennial.
- B) a member of Generation X.
- C) a baby boomer.
- D) an immigrant.
- E) a member of Generation Z.

107) Sasha is a human resource (HR) manager at a company. A survey of the company's employees reveals that more than 80 percent of the employees belong to the demographic segment Generation Y. In this scenario, which of the following HR strategies should Sasha implement in order to best serve the needs of the employees?

- A) Sasha should use financial rewards to motivate the employees to improve their productivity.
- B) Sasha should keep the training sessions highly formal and standardized.
- C) Sasha should restrict the employees from using work from home or telecommuting options.
- D) Sasha should avoid giving regular, direct feedback to the employees.
- E) Sasha should use recognition and advancement as the driving forces to motivate employees.

108) Which of the following demographic segments should both small retailers and small-service providers specializing in ethnic products target?

- A) immigrants
- B) echo boomers
- C) baby boomers
- D) Generation X
- E) drivers

109) Which of the following demographic trends has made health care and financial planning industries attractive for small businesses in the United States?

- A) decreasing population of millennials
- B) increasing income among Generation X
- C) aging baby boomers who are wealthy
- D) reducing entrepreneurial spirit among young generations
- E) increasing imports into the economy

110) Which of the following is an implication of technological advances to small businesses?

- A) It fails to make any significant changes as small businesses cannot afford to use sophisticated technology in their operations.
- B) It reduces a small business's ability to adapt to changing trends and market demands.
- C) It increases the ratio of baby boomers as employees in small businesses.
- D) It provides new opportunities for small businesses to expand their operations abroad.
- E) It reduces a small company's ability to customize its services and products.

111) Kevin makes rustic wood furniture and home accessories. During a recent time of economic turbulence, when well-funded dot-coms were failing, Kevin continued to succeed, likely because he learned how to

- A) recover from an oversupply of Internet infrastructure products.
- B) build other types of furniture so he could work for a larger furniture company.
- C) recover from an economic slowdown.
- D) use the Internet to promote himself and sell his products online.
- E) hold steady in the face of change.

112) All of the following have provided new opportunities for small businesses EXCEPT

- A) deregulation of the energy market and interest in alternative fuels.
- B) technological advances and an increase in service exports.
- C) free trade agreements and trade alliances.
- D) economic turbulence.
- E) the success of large information technology companies.

113) Bart is a human resource manager at a large multinational company. After a drastic drop in revenue, his company needed to correct the situation. At a meeting with the top management, the CEO suggested that the company should reduce its workforce by 20 percent. This move would help the company cut costs and continue functioning on the current projects. In this scenario, which of the following strategies is Bart's company planning to use?

- A) off shoring
- B) outsourcing
- C) crowd sourcing
- D) franchising
- E) downsizing

114) Downsizing is an effective way to

- A) gain the advantages of small businesses.
- B) increase organizational tasks.
- C) reduce entrepreneurial spirit among employees.
- D) increase the management layers.
- E) gain employee trust.

115) Paula works for a large company that is trying to function like a smaller company. Which of the following is something the company can do to achieve this goal?

- A) The company can increase its management layers.
- B) The company can increase its work tasks.
- C) The company can make its operating units function more like independent small businesses.
- D) The company can increase its corporate staff.
- E) The company can split each operating unit into a separate business.

116) Which of the following statements accurately describes intrapreneurs?

- A) Employees who become a part of a company's board of directors through internal promotions are referred to as intrapreneurs.
- B) Entrepreneurs who sell the rights to use their products to independent owners are intrapreneurs.
- C) Entrepreneurs who are involved in international business are referred to as intrapreneurs.
- D) Independent investors who help a company raise capital through internal financing are intrapreneurs.
- E) Individuals in large firms who take responsibility for the development of innovations within the organizations are intrapreneurs.

117) Jason works for a large sporting goods corporation. He champions a new hockey helmet with advanced concussion protection. Jason is a(n)

- A) entrepreneur.
- B) intrapreneur.
- C) innovator.
- D) product leader.
- E) independent contractor.

118) Jorge is an employee at a company that provides information technology solutions to other firms. Recognizing his potential to innovate, the top management of the company has given him the complete liberty to develop a new smart-phone application using the resources of the company. In this scenario, Jorge best illustrates

- A) a franchiser.
- B) a venture capitalist.
- C) an intrapreneur.
- D) a product champion.
- E) a trade creditor.

Essay Questions

119) Name three ways in which small businesses contribute to the American economy.

120) What is undercapitalization? How does it contribute to the failure of a business?

121) What is a business plan and why is it important?