

**Test Bank**

*to accompany*

# **Contemporary Business**

**13<sup>th</sup> Edition**

**CHAPTERS 1–18**

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## Chapter 1—The Framework of Contemporary Business

### MATCHING

*Complete the following using these terms.*

- a. outsourcing
  - b. diversity
  - c. entrepreneur
  - d. competitive differentiation
  - e. strategic alliance
  - f. capital
  - g. vision
  - h. factors of production
  - i. brand
  - j. relationship management
  - k. not-for-profit organizations
  - l. business ethics
1. To operate effectively, certain inputs called \_\_\_\_\_ systems are required for all economic systems.
  2. \_\_\_\_\_ refers to technology, tools, information, and physical facilities.
  3. A company that contracts with another business to perform functions previously handled by internal staff is participating in \_\_\_\_\_.
  4. A partnership formed to create a competitive advantage for the businesses involved is known as a(n) \_\_\_\_\_.
  5. A person who seeks a profitable opportunity and then devises a plan to achieve that profit is called a(n) \_\_\_\_\_.
  6. The ability to perceive future marketplace needs and what an organization can do to satisfy them is referred to as \_\_\_\_\_.
  7. A(n) \_\_\_\_\_ is a name, terms, sign, symbol, design, or combination that identifies the products of one firm.
  8. \_\_\_\_\_ is a collection of activities that build and maintain ongoing, mutually beneficial ties between a business and its customers and other parties.
  9. \_\_\_\_\_ involves blending different genders, ethnic backgrounds, cultures, religions, ages, and physical and mental abilities in order to enhance a firm's chances of success.
  10. \_\_\_\_\_ are businesslike establishments that have primary objectives other than returning profits to their owners.
  11. \_\_\_\_\_ refers to the standards of conduct and moral values involving decisions made in the work environment.
  12. \_\_\_\_\_ is the unique combination of organizational abilities, products, and approaches that sets a company apart from competitors in the minds of consumers.
- |                     |        |  |
|---------------------|--------|--|
| 1. ANS: H           | DIF: 2 | REF: What is Business?                   |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 2. ANS: F           | DIF: 2 | REF: What is Business?                   |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 3. ANS: A           | DIF: 2 | REF: Today's Business Workforce          |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 4. ANS: E           | DIF: 2 | REF: Six Eras in the History of Business |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 5. ANS: C           | DIF: 2 | REF: What is Business?                   |
| NAT: AACSB Analytic |        | MSC: KN                                  |

- |     |                     |        |  |
|-----|---------------------|--------|--|
| 6.  | ANS: G              | DIF: 2 | REF: The 21 <sup>st</sup> -Century Manager |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 7.  | ANS: I              | DIF: 2 | REF: Six Eras in the History of Business   |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 8.  | ANS: J              | DIF: 2 | REF: Six Eras in the History of Business   |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 9.  | ANS: B              | DIF: 2 | REF: Today's Business Workforce            |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 10. | ANS: K              | DIF: 2 | REF: What is Business ?                    |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 11. | ANS: L              | DIF: 2 | REF: What Makes a Company Admired?         |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |
| 12. | ANS: D              | DIF: 2 | REF: The Private Enterprise System         |
|     | NAT: AACSB Analytic |        | MSC: KN                                    |

## ESSAY

1. Define profit. Explain why you agree or disagree with the following statement: "The success of a business is measured only by the profit it earns."

ANS:

Profit is the financial reward received by successful businesspeople who take the risks involved in blending people, technology, and information to create and market want-satisfying goods and services. In order to be successful in a private enterprise system, a business must earn a satisfactory profit; otherwise, the owners and investors will turn to more attractive opportunities. However, businesses today are expected to do more than earn a satisfactory profit -- they also have social and ethical responsibilities. In other words, businesses must behave responsibly in their dealings with employees, customers, suppliers, the general public, and even with their competitors.

DIF: 3                      REF: What is Business?      NAT: AACSB Reflective Thinking  
MSC: AP

2. List the four factors of production and the corresponding factor payments.

ANS:

The four factors, and the factor payment for each, are natural resources (rent), capital (interest), human resources (wages), and entrepreneurship (profit).

DIF: 2                      REF: What is Business?      NAT: AACSB Analytic  
MSC: KN

3. Explain how consumers benefit from business competition.

ANS:

Competition forces a business that wants to continue to be profitable to constantly find acceptable ways to satisfy customers' needs. Customers benefit from new products, more services, and more economical strategies and operations that are continuously offered by firms as they strive for customer acceptance. These tactics often bring lower prices, better quality, and more convenience to the customers. The ability to buy more raises the standard of living, increases demand, and subsequently creates more jobs.

DIF: 3                      REF: The Private Enterprise System      NAT: AACSB Reflective Thinking

MSC: AP

4. List and describe the four basic rights in the private enterprise system.

ANS:

The right to private property guarantees every participant the right to own, use, buy, sell and bequeath most forms of property. The right to profits ensures business owners the right to all profits (after taxes) they earn through their activities. Freedom of choice means that a private enterprise system relies on the potential for citizens to choose their own employment, purchases and investments. Finally, the private enterprise system permits fair competition by allowing the public to set rules for competitive activity, including laws that prohibit “cutthroat” competition.

DIF: 3

REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

5. List the six eras of business history. Describe the era that introduced Henry Ford’s assembly line.

ANS:

The six eras are the Colonial period, the Industrial Revolution, the age of industrial entrepreneurs, the production era, the marketing era, and the relationship era. Henry Ford’s assembly line (introduced in the early 1900s) belonged to the production era. This era was characterized by an emphasis on producing an increased amount of goods that were made faster and cheaper.

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Reflective Thinking

MSC: AP

6. What is the basic difference between the production era and the relationship era?

ANS:

During the production era, management concentrated on the production process and internal processes rather than external influences. The relationship era is using technology to have direct links with customers, employees, suppliers and other organizations. This allows businesses to improve their understanding of what their customers want from the company.

DIF: 3

REF: Six Eras in the History of Business

NAT: AACSB Reflective Thinking

MSC: AP

7. Explain the difference between transaction management and relationship management.

ANS:

Building and promoting products with the hope that the sales will cover costs and earn an acceptable profit is known as transaction management. Actively promoting long-term relationships with customers by carefully managing each interaction is known as relationship management. Potential benefits of relationship management include higher prices and lower marketing expenses.

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Reflective Thinking

MSC: AP

8. In the context of business, define technology.

ANS:

In a business context, technology can be defined as an application of knowledge based on scientific discoveries, inventions, and innovations. In managing relationships with customers, technology most often takes the form of communication.

DIF: 2                      REF: Six Eras in the History of Business   NAT: AACSB Technology  
MSC: KN

9. Explain how e-business has created a new type of strategic alliance among companies.

ANS:

An e-business strategic alliance enables online companies, such as eBay or Amazon, to work with traditional retail stores for the benefit of both companies. Traditional companies bring their merchandise and knowledge of distribution, while online companies provide increased opportunities for sales and additional return on their dollars.

DIF: 2                      REF: Six Eras in the History of Business   NAT: AACSB Technology  
MSC: AP

10. Describe how the aging population in the United States and abroad directly affects changes in the workforce.

ANS:

Employers must deal with issues such as retirement, disability programs, retraining, and insurance benefits. Additionally, teenagers are entering the workforce sooner, and some seniors are staying longer or seeking new careers after retiring from their primary careers.

DIF: 2                      REF: Today's Business Workforce                      NAT: AACSB Reflective Thinking  
MSC: AP

11. What are the advantages of a diverse workforce?

ANS:

Studies show that diverse employee teams and workforces tend to perform tasks more effectively and develop better solutions to business problems than homogeneous employee groups. Also, a diverse workforce may improve management's understanding of customer needs and relationships with consumer groups.

DIF: 2                      REF: Today's Business Workforce                      NAT: AACSB Diversity  
MSC: KN

12. Describe the difference between outsourcing, offshoring, and nearshoring.

ANS:

Outsourcing utilizes outside vendors to produce goods or fulfill services and functions that were previously handled in-country or in-house. Offshoring is the relocation of business processes to lower-cost locations overseas, which can include both production and services. Nearshoring involves outsourcing production or services to locations near a firm's home base.

DIF: 2                      REF: Today's Business Workforce                      NAT: AACSB Analytic  
MSC: KN

13. Explain the new employer-employee relationship in business.

ANS:

Many firms now recognize the value of a partnership with employees that encourages creative thinking, problem solving, and innovation. Managers are being trained to listen to and respect employees, and companies routinely share financial data and reward employees with benefits, such as stock options. Additionally, employees often receive training geared toward career advancement. Employees are no longer likely to remain with a single company throughout their entire careers and do not necessarily expect lifetime loyalty from the companies they work for. They do not expect to give that loyalty either. Instead, they build their own careers however and wherever they can.

DIF: 2                      REF: Today's Business Workforce                      NAT: AACSB Reflective Thinking  
MSC: AP

14. Define the term vision. Why is vision an important skill today?

ANS:

Vision is the ability to perceive marketplace needs and what an organization must do to satisfy them. Vision and the ability to turn ideas into action enhance a firm's chances of success.

DIF: 1                      REF: The 21<sup>st</sup>-Century Manager                      NAT: AACSB Reflective Thinking  
MSC: AP

15. What are some examples of external and internal forces that would require a manager to lead organizational change?

ANS:

External forces might include feedback from customers, developments in the international marketplace, economic trends, and new technologies. Internal factors might arise from new company goals, emerging employee needs, labor union demands, or production problems.

DIF: 2                      REF: The 21<sup>st</sup>-Century Manager                      NAT: AACSB Reflective Thinking  
MSC: AP

16. What makes a company admired?

ANS:

Companies that make lists of "most admired" tend to have solid profits, stable growth, a safe and challenging work environment, high-quality products, and strong business ethics and social responsibility.

DIF: 2                      REF: What Makes a Company Admired?                      NAT: AACSB Ethics  
MSC: KN

17. Explain how business ethics differs from social responsibility.

ANS:

Business ethics refers to standards of conduct and moral values involving right and wrong actions in the work environment. Social responsibility is the actions taken by an organization that lead to social and economic benefits to society as a whole, such as supporting charitable organizations and protecting the environment.

DIF: 2                      REF: What Makes a Company Admired?                      NAT: AACSB Ethics  
MSC: AP

## **MULTIPLE CHOICE**

1. Which of the following are organized for profit and provide goods and services?
- a. Public schools
  - b. Churches
  - c. Government
  - d. Businesses

ANS: D                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

2. All of the following statements are correct EXCEPT:
- a. Successful businesses seek to meet their social and ethical responsibilities.
  - b. Business is the economic pulse of a nation.
  - c. Business includes nonprofit organizations that provide services to the public.
  - d. Business provides goods and services necessary to an economic system.

ANS: C                      DIF: 3                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

3. In accounting terms, profits are \_\_\_\_\_.
- a. the difference between revenues and expenses
  - b. the difference between commissions earned and receipts
  - c. the difference between sales and expenses
  - d. the sum of sales and expenses

ANS: A                      DIF: 1                      REF: What is Business?  
NAT: AACSB Analytic                      MSC: KN

4. In the U.S. economy, \_\_\_\_\_ are considered the reward for the risk of entering business.
- a. Revenues
  - b. Profits
  - c. Sales
  - d. generated income amounts

ANS: B                      DIF: 3                      REF: What is Business ?  
NAT: AACSB Ethics                      MSC: AP

5. \_\_\_\_\_ is essential because it serves as a primary incentive for people to start companies, expand them, and provide consistently high-quality competitive goods and services.
- a. Vision
  - b. Profit
  - c. Market research
  - d. Philanthropy

ANS: B                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: KN

6. All of the following are businesses EXCEPT \_\_\_\_\_.
- a. U.S. Postal Service
  - b. UPS
  - c. FedEx
  - d. AOL Time Warner

ANS: A                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

7. All of the following are typically part of the not-for-profit sector EXCEPT \_\_\_\_\_.
- a. hotels
  - b. political parties
  - c. religious organizations
  - d. labor unions

ANS: A                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: AP

8. A public-sector not-for-profit organization would include which of the following?
- a. library
  - b. museum
  - c. charitable group
  - d. labor union

ANS: D                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

9. The factors of production in an economic system are \_\_\_\_\_.
- a. land, rent, capital, and human resources
  - b. capital, perseverance, natural resources, and human resources
  - c. rent, wages, interest, and profit
  - d. natural resources, human resources, capital, and entrepreneurship

ANS: D                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

10. Timber Trails, a Northwest lumber company, utilizes \_\_\_\_\_ as its primary production factor.
- a. natural resources
  - b. Capital
  - c. Entrepreneurship
  - d. human resources

ANS: A                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Donovan Corporation's sources of capital can include all of the following EXCEPT \_\_\_\_\_.
- a. investments from stockholders
  - b. reinvested profits
  - c. cash dividends declared by Donovan's board of directors and paid to the stockholders
  - d. investments from venture capitalists

ANS: C                      DIF: 3                      REF: What is business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

12. Technology, tools, information, and physical facilities for the operation of a business are called \_\_\_\_\_.
- a. profits
  - b. wages
  - c. capital
  - d. interest

ANS: C                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Technology                      MSC: KN



13. \_\_\_\_\_ can result in a new product, improvements in an existing product, as well as providing more efficient communication within a company.
- a. Critical thinking
  - b. Competitive differentiation
  - c. Technology
  - d. Productivity

ANS: C                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Technology                      MSC: KN

14. The human resources of a firm refer to \_\_\_\_\_.
- a. union workers only
  - b. everyone over 18 years of age
  - c. management personnel
  - d. everyone who works for the business

ANS: D                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

15. Tarek, a former middle manager from Alexander Manufacturing, owns and operates a Subway franchise. Tarek is demonstrating \_\_\_\_\_.
- a. social responsibility
  - b. socialism
  - c. entrepreneurship
  - d. pure competition

ANS: C                      DIF: 2                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

16. Businesses that operate in an environment where success or failure is determined by how well they match and counter the offerings of competitors are operating under \_\_\_\_\_.
- a. the private enterprise system
  - b. a social democracy
  - c. a monopoly
  - d. socialism

ANS: A                      DIF: 2                      REF: The Private Enterprise System  
NAT: AACSB Analytic                      MSC: KN

17. Capitalism is founded on \_\_\_\_\_.
- a. the social changes that followed the Industrial Revolution
  - b. the idea that 80 percent of the nation's wealth should be owned by no more than 20 percent of the people
  - c. the idea that the government must own all factors of production
  - d. the belief that competition among business firms best serves the needs of society

ANS: D                      DIF: 2                      REF: The Private Enterprise System  
NAT: AACSB Analytic                      MSC: KN

18. In his book *The Wealth of Nations*, the Scottish economist Adam Smith was the first person to describe \_\_\_\_\_.
- a. socialism
  - b. communism
  - c. capitalism
  - d. entrepreneurship

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: The Private Enterprise System  
MSC: KN

19. To be successful in the private enterprise system, firms must \_\_\_\_\_.  
a. be organized as corporations  
b. find a basis for competitive differentiation  
c. believe that high prices will automatically ensure high profits  
d. be regulated by government

ANS: B                      DIF: 1  
NAT: AACSB Analytic

REF: The Private Enterprise System  
MSC: KN

20. When Greenlawn Inc. finds itself losing contracts because Lo-Price Lawn Co. charges less money, Greenlawn responds by lowering its bids. This reaction demonstrates \_\_\_\_\_.  
a. the right to private property  
b. the invisible hand of competition  
c. collusion  
d. social responsibility

ANS: B                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Private Enterprise System  
MSC: AP

21. Namesh recently sold his Ford Taurus to a personal friend. Namesh's sale of his automobile illustrates the right to \_\_\_\_\_.  
a. freedom of choice  
b. private property  
c. profit  
d. set ground rules for competitive activity

ANS: B                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Private Enterprise System  
MSC: AP

22. All of the following are basic rights within a private enterprise system EXCEPT \_\_\_\_\_.  
a. private property  
b. guaranteed profits  
c. freedom of choice of investment  
d. freedom of choice of employment

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: The Private Enterprise System  
MSC: KN

23. The right to profit means the \_\_\_\_\_.  
a. risk taker is guaranteed the right to all profits (after taxes) that are earned by the business  
b. right to go into or out of business at any point and for any reason  
c. government will guarantee a profit  
d. right to all benefits resulting from the ownership of property

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Private Enterprise System  
MSC: KN

24. Which of the following is considered to be the most fundamental right of the private enterprise system?  
a. The right to private property  
b. The right to guaranteed profits  
c. Freedom of choice

d. The right to fair competition

ANS: A

DIF: 2

REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

25. Citizens in a private enterprise system have the right to choose their employment, purchases, and investments, illustrating their right to \_\_\_\_\_.

- a. profit
- b. credit
- c. freedom of choice
- d. private property

ANS: C

DIF: 1

REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

26. All of the following are rights granted to citizens and to the government in a private enterprise system EXCEPT the right to \_\_\_\_\_.

- a. Fair competition
- b. permit price discrimination
- c. select from among a variety of goods and services
- d. own property

ANS: B

DIF: 2

REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

27. In colonial days, America's economy was primarily based on \_\_\_\_\_.

- a. gold mining
- b. agriculture
- c. real estate
- d. mass production

ANS: B

DIF: 1

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

28. In colonial society, real economic and political power was centered in \_\_\_\_\_.

- a. Cities
- b. rural areas
- c. areas west of the Mississippi River
- d. metropolitan areas

ANS: B

DIF: 1

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

29. The Industrial Revolution in England transformed America's economy by introducing \_\_\_\_\_.

- a. The concept of each worker producing one complete product
- b. labor unions
- c. the factory system
- d. the continuously moving assembly line

ANS: C

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

30. The American Industrial Revolution did not make real progress until \_\_\_\_\_.

- a. a railroad system was built providing fast, economical transportation
- b. a good relationship was formed with England
- c. the introduction of the automobile occurred

d. a reliable system of telephone communication was established

ANS: A                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

31. J. P. Morgan and Andrew Carnegie were \_\_\_\_\_.

- a. intrapreneurs
- b. entrepreneurs
- c. political leaders
- d. union leaders

ANS: B                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

32. Henry Ford is noted in business history for introducing the moving assembly line, which greatly reduced the cost of producing a car. Assembly lines first became common during the \_\_\_\_\_.

- a. relationship era
- b. marketing era
- c. Industrial Revolution
- d. production era

ANS: D                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

33. Which of the following BEST distinguishes the philosophy of the marketing era from the philosophy of the production era?

- a. The production era was more consumer oriented.
- b. The marketing era advocated price discrimination.
- c. The production era occurred after World War II.
- d. The marketing era was more consumer oriented.

ANS: D                      DIF: 3                      REF: Six Eras in the History of Business  
NAT: AACSB Reflective Thinking                      MSC: AP

34. The business philosophy that advocates determining what consumers want and need, and then designing products to satisfy those needs, is known as \_\_\_\_\_.

- a. consumer orientation
- b. self-sufficiency concept
- c. Work ethic
- d. production concept

ANS: A                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Reflective Thinking                      MSC: AP

35. The concept of branding first emerged during the \_\_\_\_\_.

- a. production era
- b. relationship era
- c. age of the industrial entrepreneur
- d. marketing era

ANS: D                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

36. The relationship era is driven by \_\_\_\_\_.

- a. advances in manufacturing technology
- b. advances in marketing research

- c. advances in communication technology
- d. an increase in the number of business transactions

ANS: C                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Technology                      MSC: KN

37. Technology has resulted in all of the following EXCEPT \_\_\_\_\_.
- a. product obsolescence
  - b. the creation of new industries
  - c. the opening of new business opportunities
  - d. less business efficiency

ANS: D                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Technology                      MSC: AP

38. Concentrating on building and promoting products in hopes that enough customers will buy them in order to cover costs and earn acceptable profits is called \_\_\_\_\_.
- a. relationship management
  - b. transaction management
  - c. a strategic alliance
  - d. marketing management

ANS: B                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

39. Nurturing customer loyalty by gathering knowledge of customer needs and preferences is an approach known as \_\_\_\_\_.
- a. relationship management
  - b. transaction management
  - c. a strategic alliance
  - d. marketing management

ANS: A                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

40. A partnership is \_\_\_\_\_.
- a. a category of relationship management
  - b. an affiliation of two or more companies
  - c. not common in the e-business world
  - d. the same as transaction management

ANS: B                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

41. Apple iPods sold on Amazon's Web site signifies the formation of a \_\_\_\_\_ to increase profits.
- a. transaction alliance
  - b. brand partnership
  - c. strategic alliance
  - d. marketing agreement

ANS: C                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Which of the following statements is NOT correct?
- a. The U.S. population is getting older.
  - b. The size of the labor pool is decreasing.

- c. The U.S. population is becoming more diverse.
- d. Workers change jobs less frequently today.

ANS: D                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

43. The number of people age 65 and over will \_\_\_\_\_ by 2030.
- a. decrease by approximately 10 percent
  - b. increase by approximately 10 percent
  - c. increase by approximately 50 percent
  - d. double

ANS: D                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

44. Diverse employee teams tend to perform \_\_\_\_\_ and develop \_\_\_\_\_ than do homogenous employee groups.
- a. less effectively; better solutions
  - b. More effectively; better solutions
  - c. less effectively; worse solutions
  - d. More effectively; worse solutions

ANS: B                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Diversity                      MSC: AP

45. Outsourcing \_\_\_\_\_.
- a. reduces the diversity of the workforce
  - b. can make a firm more competitive
  - c. increases staffing requirements
  - d. increases costs

ANS: B                      DIF: 1                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

46. When a business employs an outside company to handle all customer correspondence and phone calls, the business is \_\_\_\_\_ its customer service department.
- a. multitasking
  - b. shrinking
  - c. outsourcing
  - d. branding

ANS: C                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Reflective Thinking                      MSC: AP

47. When Google opened offices in Tokyo, London, and Sydney, they were utilizing \_\_\_\_\_ by relocating business activities to lower-cost locations overseas.
- a. nearshoring
  - b. outsourcing
  - c. offshoring
  - d. employee sourcing

ANS: C                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Reflective Thinking                      MSC: AP

48. The work-comes-first lifestyle is exemplified by:
- a. Generation X
  - c. Baby-boomers

b. Generation Y

d. the EU

ANS: C  
Reflective Thinking  
MSC: AP

DIF: 1

REF: Today's Business Workforce NAT: AACSB

49. The new employer-employee partnership has led to all of the following EXCEPT \_\_\_\_\_.
- a. increased job security
  - b. sharing of financial information with employees
  - c. increased emphasis on listening to and respecting employees
  - d. helping employees improve skills and knowledge

ANS: A  
NAT: AACSB Reflective Thinking

DIF: 1

REF: Today's Business Workforce  
MSC: AP

50. When a U.S. company outsources work to Mexico, it is \_\_\_\_\_.
- a. offshoring
  - b. nearsourcing
  - c. nearshoring
  - d. exporting

ANS: C  
NAT: AACSB Communication

DIF: 2

REF: Today's Business Workforce  
MSC: AP

51. For today's managers, which of the following is LEAST important?
- a. The ability to work by strict rules
  - b. Vision
  - c. Critical thinking skills
  - d. Creativity

ANS: A  
NAT: AACSB Reflective Thinking

DIF: 1

REF: The 21st-Century Manager  
MSC: AP

52. \_\_\_\_\_ is the ability to perceive marketplace needs and what an organization must do to satisfy these needs.
- a. Critical thinking
  - b. Social responsibility
  - c. Vision
  - d. Creativity

ANS: C  
NAT: AACSB Analytic

DIF: 1

REF: The 21st-Century Manager  
MSC: KN

53. Emily works for a pharmaceutical company and gives a presentation on the need to expand the company's geriatric division within the next 10 years. Emily is helping to establish the company's \_\_\_\_\_.
- a. creativity
  - b. productivity
  - c. vision
  - d. critical thinking

ANS: C  
NAT: AACSB Reflective Thinking

DIF: 2

REF: The 21st-Century Manager  
MSC: AP

54. In business, \_\_\_\_\_ refers to the ability to see better and different ways of doing business.
- a. critical thinking

- b. social responsibility
- c. vision
- d. creativity

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: The 21st-Century Manager  
MSC: KN

55. Restating issues in reverse, such as naming ways to lose customers, is a method of developing \_\_\_\_\_.

- a. critical thinking
- b. social responsibility
- c. vision
- d. creativity

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The 21st-Century Manager  
MSC: AP

56. When 3M managers decided to manufacture Post-it notes, a new product was born. This was an example of \_\_\_\_\_ in action.

- a. vision
- b. creativity
- c. social responsibility
- d. critical thinking skills

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The 21st-Century Manager  
MSC: AP

57. Alejandro is seeking to revitalize his graphic design company with new innovations, and has called a brainstorming meeting with his top designers. Alejandro is practicing \_\_\_\_\_.

- a. creativity
- b. vision
- c. critical thinking
- d. productivity

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The 21st-Century Manager  
MSC: AP

58. Feedback from customers is an example of a(n) \_\_\_\_\_ that requires organizational change.

- a. internal force
- b. external force
- c. change agent
- d. marketing issue

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: The 21st-Century Manager  
MSC: KN

59. Which of the following is NOT an example of an internal force that requires organizational change?

- a. Labor union demands
- b. Production problems
- c. New technologies
- d. New company goals

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: The 21st-Century Manager  
MSC: KN

60. \_\_\_\_\_ refers to standards of conduct and moral values of a firm.



- a. Business ethics
- b. Social responsibility
- c. A social audit
- d. Creativity

ANS: A                      DIF: 1  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: KN

61. "Newman's Own" is a food product line that gives 100% of its after-tax profits to charity. This company is practicing \_\_\_\_\_.  
  - a. business ethics
  - b. social responsibility
  - c. customer satisfaction
  - d. creativity

ANS: B                      DIF: 2  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: AP

62. When management adheres to a set of standards involving the right and wrong actions arising in the work environment, management is practicing \_\_\_\_\_.  
  - a. social responsibility
  - b. business ethics
  - c. social welfare
  - d. creativity

ANS: B                      DIF: 1  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: KN

63. Which of the following companies is NOT on Fortune magazine's 10 most admired U.S. companies list?  
  - a. Starbucks
  - b. Johnson & Johnson
  - c. General Electric
  - d. Intel

ANS: D                      DIF: 2  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: AP

64. When management's decisions align with social and economic issues, the company is practicing \_\_\_\_\_.  
  - a. social responsibility
  - b. business ethics
  - c. social welfare
  - d. creativity

ANS: A                      DIF: 1  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: KN

65. Social responsibility would include all of the following EXCEPT \_\_\_\_\_.  
  - a. supporting the local United Way
  - b. Buying goods and services from minority-owned vendors
  - c. making campaign contributions to politicians in the hope of obtaining a government contract
  - d. making contributions to the local public radio station

ANS: C                      DIF: 2

REF: What Makes a Company Admired ?

**TRUE/FALSE**

1. Large corporations are defined as businesses, whereas small companies are more of an investment.

ANS: F                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

2. Companies are not required to be ethical to succeed in the long run.

ANS: F                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Ethics                      MSC: KN

3. In order to remain viable, not-for-profit organizations need to focus on profits even more than the public service they provide.

ANS: F                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Ethics                      MSC: AP

4. Not-for-profit organizations are commonly exempt from federal, state, and local taxes.

ANS: T                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

5. Just as with a for-profit business, the first priority for a not-for-profit organization is making a profit.

ANS: F                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

6. All factors of production are found in equal amounts in all businesses.

ANS: F                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

7. Capital includes money, machines, tools, buildings, and human resources.

ANS: F                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

8. Natural resources are essential for certain companies, but are not required for all economic systems.

ANS: F                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Analytic                      MSC: KN

9. Technology is considered to be capital.

ANS: T                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Technology                      MSC: KN

10. High-end technology, such as the Global Positioning Satellite System offered in some new cars, is considered a capital resource.

ANS: T                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Technology                      MSC: AP

11. When farmers rent land in order to increase crop production, they are acquiring capital.

ANS: F                      DIF: 1                      REF: What is Business ?  
NAT: AACSB Reflective Thinking                      MSC: AP

12. Entrepreneurship is synonymous with 'risk-taking.'

ANS: T                      DIF: 2                      REF: What is Business ?  
NAT: AACSB Technology                      MSC: KN

13. The private enterprise system encourages government intervention.

ANS: F                      DIF: 1                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

14. The U.S. functions under the private enterprise system.

ANS: T                      DIF: 1                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

15. Adam Smith's "invisible hand" refers to the battle among businesses for consumer acceptance.

ANS: T                      DIF: 1                      REF: The Private Enterprise System  
NAT: AACSB Analytic                      MSC: KN

16. Profits are guaranteed by the private enterprise system for every entrepreneur with good management skills.

ANS: F                      DIF: 1                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

17. Private property is considered the most important right in the private enterprise system.

ANS: T                      DIF: 2                      REF: The Private Enterprise System  
NAT: AACSB Analytic                      MSC: KN

18. When customers enter a supermarket and select their favorite brand of laundry detergent, they are exercising their right to freedom of choice.

ANS: T                      DIF: 2                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

19. When the government sets ground rules for competitive activity, the intent is to increase freedom of choice for consumers.

ANS: T                      DIF: 1                      REF: The Private Enterprise System  
NAT: AACSB Reflective Thinking                      MSC: AP

20. In the private enterprise system, government has no role to play in ensuring fair competition.

ANS: F                      DIF: 2                      REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

21. Unfair or "cutthroat" competition, designed to eliminate competitors, is prohibited by the U.S. government.

ANS: T

DIF: 2

REF: The Private Enterprise System

NAT: AACSB Analytic

MSC: KN

22. Finding unique ways to use the factors of production is a common characteristic of most entrepreneurs.

ANS: T

DIF: 2

REF: The Private Enterprise System

NAT: AACSB Reflective Thinking

MSC: AP

23. Entrepreneurs are very conservative and usually invest only in sure winners.

ANS: F

DIF: 1

REF: The Private Enterprise System

NAT: AACSB Reflective Thinking

MSC: AP

24. During the Colonial period, the focus was on agriculture and other rural activities.

ANS: T

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

25. The Industrial Revolution began in Germany and quickly spread to the rest of Europe.

ANS: F

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

26. The Industrial Revolution began in the United States with the development of the automobile.

ANS: F

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

27. One factor that led to the Industrial Revolution was the mechanization of agriculture.

ANS: T

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

28. A key element of the production era was the use of consumer research.

ANS: F

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

29. The production era preceded the age of industrial entrepreneurs.

ANS: F

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Analytic

MSC: KN

30. In consumer orientation, a company creates a product first, and then determines if the consumer will likely purchase the product.

ANS: F

DIF: 2

REF: Six Eras in the History of Business

NAT: AACSB Reflective Thinking

MSC: AP

31. The Nike swoosh is not considered a brand; only the company name can be a brand.

ANS: F                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Reflective Thinking                      MSC: AP

32. The current philosophy among managers today is best described as transaction management.

ANS: F                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

33. Information technology has been the key driver behind the relationship era.

ANS: T                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Technology                      MSC: KN

34. Technology has revolutionized business communications.

ANS: T                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Technology | AACSB Communication                      MSC: AP

35. Relationship management refers to ongoing, mutually beneficial ties between a company and its vendors.

ANS: F                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Technology                      MSC: AP

36. Technology can make some products obsolete.

ANS: T                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Technology                      MSC: KN

37. Relationship management concentrates on short-term interactions with customers.

ANS: F                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

38. The number of companies forming partnerships and strategic alliances has declined in recent years.

ANS: F                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

39. The use of web blogs as a link between companies and their customers is on the decline.

ANS: F                      DIF: 1                      REF : Six Eras in the History of Business  
NAT: AACSB Technology  
MSC: KN

40. Assume Motorola and Microsoft work on developing a new cell phone that is also a PDA. This is an example of a strategic alliance.

ANS: T                      DIF: 2                      REF: Six Eras in the History of Business  
NAT: AACSB Reflective Thinking                      MSC: AP

41. The need to develop environmentally friendly products and processes is becoming a major new force in business today.

ANS: T                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytical  
MSC: KN

42. A strategic alliance is a partnership formed to create competitive advantage for the businesses involved.

ANS: T                      DIF: 1                      REF: Six Eras in the History of Business  
NAT: AACSB Analytic                      MSC: KN

43. The needs of older workers are similar to those of younger workers.

ANS: F                      DIF: 1                      REF: Today's Business Workforce  
NAT: AACSB Reflective Thinking                      MSC: AP

44. Over the next few years, the average age of the workforce is expected to increase.

ANS: T                      DIF: 1                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

45. Although the number of college-educated workers has doubled in the last 20 years, the demand for workers is still greater than the supply.

ANS: T                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

46. Persons of Hispanic and Asian descent represent the fastest growing segments of the U.S. population.

ANS: T                      DIF: 1                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

47. Research indicates that work teams consisting of a diverse group of individuals are often more productive than less diverse work teams.

ANS: T                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Diversity                      MSC: KN

48. Even with advances in management and communications, manufacturing still accounts for most of the annual output in the U.S.

ANS: F                      DIF: 3                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

49. Outsourcing is the relocation of business activities to lower-cost locations overseas.

ANS: F                      DIF: 2                      REF: Today's Business Workforce  
NAT: AACSB Analytic                      MSC: KN

50. Today, workers are much less likely to remain with the same employer throughout their entire careers.

ANS: T                      DIF: 1                      REF: Today's Business Workforce

NAT: AACSB Analytic

MSC: KN

51. The new employer-employee relationship requires firms to establish rigid rules to govern employee activities.

ANS: F

DIF: 2

REF: Today's Business Workforce

NAT: AACSB Analytic

MSC: KN

52. The managerial quality of vision is the ability to see all of the problems that might occur.

ANS: F

DIF: 2

REF: The 21st-Century Manager

NAT: AACSB Analytic

MSC: KN

53. Critical thinking skills and creativity are essential qualities for today's managers.

ANS: T

DIF: 1

REF: The 21st-Century Manager

NAT: AACSB Analytic

MSC: KN

54. Critical thinking is the ability to analyze and assess information to pinpoint problems and opportunities.

ANS: T

DIF: 2

REF: The 21st-Century Manager

NAT: AACSB Analytic

MSC: KN

55. Creativity is the capacity to develop well-tested solutions to common organizational problems.

ANS: F

DIF: 2

REF: The 21st-Century Manager

NAT: AACSB Analytic

MSC: KN

56. A manager's only obligation is to create an environment for creativity and critical thinking. The implementation of those ideas is carried out by other departments.

ANS: F

DIF: 2

REF: The 21st-Century Manager

NAT: AACSB Reflective Thinking

MSC: AP

57. Mental exercises like brainstorming often foster creativity.

ANS: T

DIF: 1

REF: The 21st-Century Manager

NAT: AACSB Analytic

MSC: KN

58. Decreased consumer loyalty is an example of an external force that requires change.

ANS: T

DIF: 2

REF: The 21st-Century Manager

NAT: AACSB Reflective Thinking

MSC: AP

59. Business ethics deal with the right versus wrong actions that arise in a work environment.

ANS: T

DIF: 1

REF: What Makes a Company Admired ?

NAT: AACSB Ethics

MSC: KN

60. The most important factor for determining whether or not a company is admired is profitability.

ANS: F

DIF: 1

REF: What Makes a Company Admired ?

NAT: AACSB Ethics

MSC: AP

61. By supporting local charities, a firm is demonstrating social responsibility.

ANS: T                      DIF: 1  
NAT: AACSB Ethics

REF: What Makes a Company Admired ?  
MSC: AP



## Chapter 2—Business Ethics and Social Responsibility

### MATCHING

*Complete the following using the terms listed.*

- a. Securities and Exchange Commission
  - b. Occupational Safety and Health Administration
  - c. False Claims Act
  - d. integrity
  - e. social audits
  - f. social responsibility
  - g. business ethics
  - h. sexual harassment
  - i. code of conduct
  - j. conflict of interest
  - k. product liability
  - l. postconventional stage
  - m. Regulation FD
  - n. whistle-blowing
  - o. green marketing
1. A formal statement that defines how an organization expects and requires employees to resolve ethical questions is a(n) \_\_\_\_\_.
  2. When a publicly traded firm is suspected of unethical or illegal behavior, the \_\_\_\_\_ will conduct an investigation.
  3. The main federal regulatory force in setting workplace safety and health standards is the \_\_\_\_\_.
  4. The standards of conduct and moral values governing actions and decisions in the work environment is \_\_\_\_\_.
  5. A situation where a business decision may be influenced by the potential for personal gain is a(n) \_\_\_\_\_.
  6. Management's acceptance of the obligation to consider profit, consumer satisfaction, and societal well-being of equal value in evaluating the firm's performance is \_\_\_\_\_.
  7. Some companies measure social performance by conducting \_\_\_\_\_ that identify and evaluate the company's activities that relate to social issues.
  8. Inappropriate actions of a sexual nature in the workplace is \_\_\_\_\_.
  9. Having \_\_\_\_\_ means adhering to deeply felt ethical principles in all business situations.
  10. \_\_\_\_\_ requires publicly traded companies to announce major information to the general public, rather than first disclosing the information to selected investors.
  11. The \_\_\_\_\_ is a law that protects whistle-blowers who file a lawsuit on behalf of the government if they believe that a company has somehow defrauded the government.
  12. \_\_\_\_\_ refers to the responsibility of manufacturers for injuries and damages caused by their goods.
  13. A person in the \_\_\_\_\_ is able to move beyond self-interest and take into account the larger needs of society.
  14. \_\_\_\_\_ is an employee's disclosure to company officials, government authorities, or the media of illegal, immoral, or unethical practices of his or her employer.
  15. A strategy that emphasizes a firm's commitment to environmentally safe products and production is \_\_\_\_\_.
- |                   |        |  |
|-------------------|--------|--|
| 1. ANS: I         | DIF: 2 | REF: How Organizations Shape Ethical Conduct |
| NAT: AACSB Ethics |        | MSC: KN                                      |
| 2. ANS: A         | DIF: 2 | REF: Acting Responsibly to Satisfy Society   |

	NAT: AACSB Ethics		MSC: KN
3.	ANS: B	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN
4.	ANS: G	DIF: 2	REF: Concern for Ethical and Societal Issues
	NAT: AACSB Ethics		MSC: KN
5.	ANS: J	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
6.	ANS: F	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN
7.	ANS: E	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN
8.	ANS: H	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
9.	ANS: D	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
10.	ANS: M	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN
11.	ANS: C	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
12.	ANS: K	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN
13.	ANS: L	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
14.	ANS: N	DIF: 2	REF: The Contemporary Ethical Environment
	NAT: AACSB Ethics		MSC: KN
15.	ANS: O	DIF: 2	REF: Acting Responsibly to Satisfy Society
	NAT: AACSB Ethics		MSC: KN

## ESSAY

1. What are business ethics and why are they important?

ANS:

Business ethics are standards of conduct and moral values that govern actions and decisions in the work environment. They are important because a company cannot prosper in the long run without considering ethics.

DIF: 1                      REF: Concern for Ethical and Societal Issues                      NAT: AACSB Ethics  
MSC: KN

2. Explain how technology has impacted business ethics.

ANS:

Technology seems to have expanded the range and impact of unethical behavior. For instance, technology has made it easier for people to access data from a variety of locations. That, in turn, has increased the potential for someone to steal or manipulate data, or even shut down the system.

DIF: 2                      REF: The Contemporary Ethical Environment                      NAT: AACSB Ethics  
MSC: KN

3. List and briefly describe the three stages of moral and ethical development.

ANS:

The three stages of moral and ethical development are preconventional, conventional, and postconventional. In the preconventional stage, individuals primarily consider their own needs and desires in making decisions. They obey rules only because they are afraid of the consequences. The next stage is the conventional stage. Individuals are aware of and act in response to their duties to others (family or an organization, for example). Self-interest still plays a role. The final stage is the postconventional stage. In this stage the individual is able to move beyond self-interest and take the larger needs of society into account as well.

DIF: 3  
MSC: KN

REF: The Contemporary Ethical Environment NAT: AACSB Ethics

4. When does a conflict of interest pose an ethical challenge? How should a conflict of interest be handled?

ANS:

A conflict of interest exists when a person is faced with a situation in which an action benefiting one person or group has the potential to harm another. A conflict of interest can pose an ethical challenge when it involves the person's own interests and someone to whom he or she has a duty. The best way to handle a potential conflict of interest is to avoid it and/or to disclose it.

DIF: 2  
MSC: KN

REF: The Contemporary Ethical Environment NAT: AACSB Ethics

5. How could loyalty versus truth create an ethical dilemma for a businessperson?

ANS:

Businesses expect their employees to be loyal and to act in the best interests of the company. An ethical conflict can arise when an individual must decide between loyalty to the company and truthfulness in business relationships.

DIF: 2  
MSC: AP

REF: The Contemporary Ethical Environment NAT: AACSB Ethics

6. Explain how state and federal laws protect whistle-blowers.

ANS:

With the Sarbanes-Oxley Act, an individual can be prosecuted for retaliating against an employee for taking concerns of unlawful conduct to a public official. Additionally, private firms must provide procedures for anonymous reporting of accusations.

DIF: 3  
MSC: AP

REF: The Contemporary Ethical Environment NAT: AACSB Ethics

7. What is a code of conduct and what is it designed to do?

ANS:

A code of conduct is designed to improve ethical awareness among employees, to help them identify ethical problems when they occur, and provide guidance about how they should respond. A code of conduct can be quite basic: listing the rules, regulations, and laws employees are expected to follow. It may also be more elaborate: listing corporate values and frameworks for resolving ethical dilemmas.

DIF: 2  
MSC: AP

REF: How Organizations Shape Ethical Conduct NAT: AACSB Ethics

8. The development of a corporate culture to support business ethics happens on four levels. Explain each of the four levels.

ANS:

Ethical awareness is the foundation of an ethical climate. Employees need help in identifying ethical problems and guidance in how to respond. Ethical reasoning involves ethics training programs to provide employees with the tools they need to evaluate ethical dilemmas and arrive at suitable decisions. Ethical action involves the structures and procedures that firms establish to enable their employees to follow ethical behavior. Companies encourage ethical action by providing support for employees faced with dilemmas, such as an employee hotline. Ethical leadership charges each employee at every level with the responsibility for being an ethical leader. This principle requires that all employees be personally committed to the company's core values and be willing to base their actions on them.

DIF: 3

REF: How Organizations Shape Ethical Conduct NAT: AACSB Ethics

MSC: AP

9. Why is ethical leadership so important?

ANS:

Without supervisors and managers demonstrating ethical behavior, employees are not as likely to follow a set of ethical standards. An important way for business leaders to demonstrate ethical behavior is to admit when they're wrong and correct their organization's mistakes. Companies where managers set good examples have fewer incidences of unethical behavior, and employees report higher levels of satisfaction.

DIF: 2

REF: How Organizations Shape Ethical Conduct NAT: AACSB Ethics

MSC: AP

10. Explain the social responsibilities of a business and how it must balance qualitative and quantitative standards of measurement.

ANS:

Social responsibility is the management's acceptance of the obligation to consider profit, consumer satisfaction, and societal well-being of equal value in evaluating the firm's performance. It's the recognition that a business must be concerned with the qualitative dimensions of consumer, employee, and societal benefits, as well as the quantitative measures of sales and profits.

DIF: 3

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

11. What is a social audit? Who conducts one?

ANS:

A social audit is a formal procedure to identify and evaluate all company activities that relate to social issues such as conservation, employment practices, environmental protection, and philanthropy. The audit informs management about how well the company is performing in these areas. Social audits are often conducted internally by firms. Outside groups, such as environmental organizations and public-interest groups, also conduct social audits.

DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

12. What is green marketing?

ANS:

Green marketing is a marketing strategy that promotes environmental friendly products and production methods. The Federal Trade Commission has issued guidelines for businesses to follow in making environmental claims.

DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Analytic

MSC: KN

13. What are the objectives of the consumerism movement?

ANS:

Consumerism refers to the movement calling for businesses to consider the needs of consumers when making decisions. President Kennedy summarized many of the ideals of the consumerism movement in a speech in which he listed four basic consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard.

DIF: 3

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Reflective

Thinking

MSC: AP

14. List the major responsibilities business has to its workers.

ANS:

The major responsibilities to workers are a safe work environment; recognizing quality of life issues; ensuring equal employment opportunity; and prohibiting age discrimination, sexual harassment, and sexism.

DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics | AACSB Diversity

MSC: KN

15. Explain the purpose of the Equal Employment Opportunity Commission (EEOC) and the commission's primary responsibilities.

ANS:

The Equal Employment Opportunity Commission was created to increase job opportunities for women and minorities and to help end discrimination based on race, color, religion, disability, gender, or national origin in any personnel action. To enforce fair-employment laws, the commission investigates charges of discrimination and harassment, and files suit against violators. The EEOC can also assist employers with programs to increase job opportunities.

DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Diversity

MSC: KN

16. Why do investors expect a firm to act ethically and exhibit social responsibility?

ANS:

Even though the primary purpose of a firm is to make a profit, investors also expect the firm to act ethically, as well as legally, and exhibit social responsibility. Investors know that the failure of a firm to act ethically, legally, or without a sense of social responsibility can result in substantial monetary losses to investors. For instance, ethical or legal problems can cause a sudden and substantial drop in a company's stock price.

DIF: 2  
MSC: KN

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

17. Explain how a company's unethical behavior can actually decrease the value of its business.

ANS:

Although a fundamental goal of any business is to make a profit for its shareholders, the financial community demands that businesses behave ethically, as well as legally. When a firm fails in this responsibility (as evidenced by several recent corporate scandals), thousands of investors and consumers can suffer. Shareholders lose confidence in the company and sell shares, which deflates share value and, consequently, company value.

DIF: 2  
MSC: AP

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

### MULTIPLE CHOICE

1. A company removes a profitable product from the market because it may be dangerous. This company is demonstrating \_\_\_\_\_.  
a. ethical behavior  
b. short-run thinking  
c. how not to run a business  
d. social welfare

ANS: A  
NAT: AACSB Ethics

DIF: 2

REF: Concern for Ethical and Societal Issues  
MSC: AP

2. Business ethics begins with \_\_\_\_\_.  
a. the individual employee  
b. the government  
c. a code of conduct  
d. a firm's customers

ANS: A  
NAT: AACSB Ethics

DIF: 2

REF: Concern for Ethical and Societal Issues  
MSC: AP

3. When management considers social and economic issues in decision making, the company is practicing \_\_\_\_\_.  
a. business ethics  
b. social responsibility  
c. consumerism  
d. social welfare

ANS: B  
NAT: AACSB Ethics

DIF: 1

REF: Concern for Ethical and Societal Issues  
MSC: KN

4. Businesses have responsibilities to \_\_\_\_\_.  
a. investors only  
b. investors and customers  
c. investors, customers, and employees  
d. investors, customers, employees, and society

ANS: D  
NAT: AACSB Ethics

DIF: 1

REF: Concern for Ethical and Societal Issues  
MSC: KN

5. Why should a company act in an ethical manner?
- The government will take action if a firm fails to act ethically.
  - Acting ethically always maximizes profits in the short run.
  - Acting ethically will help a company to prosper in the long run.
  - The right thing to do is always the least expensive alternative.

ANS: C                      DIF: 3                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

6. Businesses should \_\_\_\_\_.
- do what is right regardless of profits
  - find the balance between doing what is right and what is profitable
  - do whatever is profitable
  - do whatever is in the company's best interests

ANS: B                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

7. Which of the following statements is correct?
- Setting ethical standards is easy.
  - Setting ethical standards is always clear-cut.
  - Doing what is right can sometimes be difficult.
  - Social and ethical problems affect only a few companies.

ANS: C                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

8. In today's business environment, who can make the difference in ethical expectations and behavior?
- Everyone
  - No one
  - Only managers
  - Only the CEO

ANS: A                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

9. In order for a company to operate to a high set of ethical standards, \_\_\_\_\_ must be involved.
- the CEO
  - managers
  - customers
  - everyone

ANS: D                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

10. \_\_\_\_\_ are responsible for conducting employee training programs that help spot potential fraud and abuse within a firm.
- Ethics compliance officers
  - Social behaviorists
  - Human Resource managers
  - Department supervisors

ANS: A                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

11. All of the following are minimum requirements for ethics compliance programs EXCEPT \_\_\_\_\_.  
a. high-level personnel responsible for compliance  
b. government regulation  
c. consistent enforcement  
d. consistent improvement

ANS: D

DIF: 3

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

12. Which of the following is not part of the three-pronged approach to ethics and social responsibility? \_\_\_\_\_.  
a. engaging in traditional corporate philanthropy, which involves giving to worthy causes  
b. anticipating and managing risks  
c. identifying opportunities to create value by doing the right thing  
d. constant improvement

ANS: D

DIF: 3

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

13. Technology has \_\_\_\_\_ ethical issues.  
a. expanded the range of  
b. reduced the range of  
c. made little difference on the range of  
d. eliminated most

ANS: A

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics | AACSB Technology

MSC: KN

14. Brianna and Sean have begun an impromptu meeting in the cubicle area at work and decide to move to an open conference room to avoid disturbing their co-workers. Brianna and Sean are demonstrating business \_\_\_\_\_.  
a. comfort  
b. partnership  
c. enterprise  
d. etiquette

ANS: D

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Communication

MSC: AP

15. Many people rationalize unethical acts because they \_\_\_\_\_.  
a. know they can get away with it  
b. are fundamentally unethical  
c. have no personal or moral values  
d. feel pressured on their jobs to meet performance goals

ANS: D

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

16. Katsuko decides not to take office supplies home because she fears she'll be fired if she's caught since it's against company rules. Which stage of ethical development is Katsuko in?  
a. Preconventional  
b. Conventional  
c. Postconventional  
d. Traditional

ANS: A

DIF: 2

REF: The Contemporary Ethical Environment



17. When an individual primarily considers his or her own needs and desires when making decisions, which stage of ethical development is this individual in?
- Preconventional
  - Conventional
  - Postconventional
  - Traditional

ANS: A                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: KN

18. Individuals who focus only on their own interests when making decisions are at the \_\_\_\_\_ stage of ethical development.
- preconventional
  - conventional
  - postconventional
  - concentrations

ANS: A                      DIF: 1  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: KN

19. Sean avoids using his office computer for personal use, even though his company doesn't have a specific policy forbidding it. Sean is at the \_\_\_\_\_ stage of ethical development.
- preconventional
  - conventional
  - postconventional
  - concentrations

ANS: B                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

20. If an individual follows personal principles for resolving ethical dilemmas and considers personal, group and societal interests, he or she is at the \_\_\_\_\_ stage of ethical development.
- preconventional
  - conventional
  - postconventional
  - concentrations

ANS: C                      DIF: 1  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: KN

21. Linda does not make personal long-distance phone calls at work because it will cost her employer money. Which stage of ethical development is Linda in?
- Preconventional
  - Conventional
  - Postconventional
  - Traditional

ANS: B                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

22. Al makes a point of turning off the lights in his office when he's not using it because it saves his company money and saves energy for the environment. Which stage of ethical development is Al in?
- Preconventional

- b. Conventional
- c. Postconventional
- d. Traditional

ANS: C                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

23. Brianna focuses on her duty to family and work, and bases her actions on the expectations of various groups in her life. At which stage of individual ethics is Brianna?
- a. Postconventional
  - b. Code of conduct
  - c. Conventional
  - d. Preconventional

ANS: C                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

24. Lynn Brewer, the primary “whistle-blower” at Enron who brought attention to the company’s unethical behavior, had moved beyond self-interest and company duty to which stage of individual ethics?
- a. Preconventional
  - b. Postconventional
  - c. Conflict of interest
  - d. Conventional

ANS: B                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

25. Sofia is an investment advisor and wants to recommend a stock she happens to own. How should Sofia best deal with this potential conflict of interest?
- a. She should not make the recommendation.
  - b. She should make a negative recommendation.
  - c. She should disclose the fact that she owns the stock while making the recommendation.
  - d. She should make a positive recommendation and then sell the stock.

ANS: C                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

26. Tanisha is a diabetes educator at a local clinic. Recently she was offered a lavish trip by a sales rep who has been pushing the clinic to use his company’s diabetes supplies. Tanisha declined the gift. Which ethical challenge did she face?
- a. Whistle-blowing
  - b. Honesty and integrity
  - c. Cultural consequences
  - d. Conflict of interest

ANS: D                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

27. How should a businessperson deal with a conflict of interest?
- a. Disclose it
  - b. Avoid it
  - c. Disclose it or avoid it
  - d. Not worry about it

ANS: C                      DIF: 1                      REF: The Contemporary Ethical Environment

28. Outside auditors are examining your company's financial records. You know there may be an error and will tell them about it, but only if they ask. They don't ask. In this scenario, your \_\_\_\_\_ could be questioned.
- loyalty
  - truthfulness
  - integrity
  - Nothing you've done could be called into question.

ANS: C

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

29. During a meeting with government regulators, Nicole voluntarily points out a potential problem with a new product her company is testing. Nicole has shown \_\_\_\_\_.
- honesty
  - loyalty
  - truthfulness
  - integrity

ANS: D

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

30. Bob takes responsibility for an error made by his assistant on a project. Bob has shown \_\_\_\_\_.
- integrity
  - honesty
  - truthfulness
  - loyalty

ANS: A

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

31. \_\_\_\_\_ are two traits highly valued by employers and are the most important qualities sought in job applicants.
- Honesty and loyalty
  - Honesty and integrity
  - Integrity and loyalty
  - Competence and commitment

ANS: B

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

32. \_\_\_\_\_ goes beyond truthfulness.
- Honesty
  - Loyalty
  - Integrity
  - Competence

ANS: C

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

33. Harold knows of a defect in a product his company sells. He will disclose the defect, but only if the customer specifically asks about it. Harold's \_\_\_\_\_ could be called into question.
- loyalty
  - truthfulness

- c. integrity
- d. whistle-blowing

ANS: C                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

34. Mica learns that her company is secretly dumping untreated waste into the city sewer systems, and she informs the local EPA office. All of the following describe Mica's ethical situation EXCEPT:
- a. She is acting as a whistle-blower.
  - b. She has a conflict of interest.
  - c. She is showing integrity.
  - d. She is showing loyalty.

ANS: D                      PTS: 1  
NAT: AACSB Ethics

DIF: 2                      REF: p. 39  
MSC: AP

35. Serena's boss tells her in confidence that Julie will be laid off when the company announces a round of job cuts next week. Afterward, Julie asks Serena if there is any truth to the rumor of impending job cuts and if she knows anything about her status. What is Serena's ethical challenge?
- a. Conflict of interest
  - b. Loyalty versus truth
  - c. Honesty versus integrity
  - d. Serena faces no ethical challenge.

ANS: B                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

36. Your supervisor asks you to conceal information from outside auditors examining the company's financial records. What is your ethical challenge?
- a. Loyalty versus truth
  - b. Conflict of interest
  - c. Honesty and integrity
  - d. You have none.

ANS: A                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

37. Mike was a foreman at Hi-Way Construction and discovered his company was deliberately using faulty materials for a project. Although Mike was worried about his family's financial security if he lost his job, he went to authorities and informed them of the potentially dangerous construction. Mike's action is called \_\_\_\_\_.
- a. ethical compliance
  - b. Good intentions
  - c. whistle-blowing
  - d. ethical allegations

ANS: C                      DIF: 2  
NAT: AACSB Ethics

REF: The Contemporary Ethical Environment  
MSC: AP

38. Development of a corporate culture to support business ethics occurs on each of the following levels EXCEPT ethical \_\_\_\_\_.
- a. leadership
  - b. awareness
  - c. success
  - d. reasoning

ANS: C  
NAT: AACSB Ethics

DIF: 2

REF: How Organizations Shape Ethical Conduct  
MSC: KN

39. Which of the following is the first step in the development of a corporate culture designed to support ethical behavior?
- a. Ethical leadership
  - b. Ethical awareness
  - c. Ethical reasoning
  - d. Ethical action

ANS: B  
NAT: AACSB Ethics

DIF: 2

REF: How Organizations Shape Ethical Conduct  
MSC: KN

40. When a company establishes a code of conduct for employees, the company is utilizing ethical \_\_\_\_\_ to assist workers in identifying ethical problems when they occur.
- a. reasoning
  - b. awareness
  - c. leadership
  - d. action

ANS: B  
NAT: AACSB Ethics

DIF: 2

REF: How Organizations Shape Ethical Conduct  
MSC: KN

41. A formal statement that defines how the organization expects and requires employees to resolve ethical questions is \_\_\_\_\_.
- a. a code of conduct
  - b. an organizational culture
  - c. the Ethics Challenge
  - d. an ethical environmental statement

ANS: A  
NAT: AACSB Ethics

DIF: 2

REF: How Organizations Shape Ethical Conduct  
MSC: KN

42. The foundation of an ethical climate is ethical \_\_\_\_\_.
- a. leadership
  - b. awareness
  - c. action
  - d. reasoning

ANS: B  
NAT: AACSB Ethics

DIF: 2

REF: How Organizations Shape Ethical Conduct  
MSC: KN

43. Which of the following can improve ethical reasoning in a company?
- a. A code of conduct
  - b. Practical training sessions
  - c. A mission statement
  - d. Organizational culture

ANS: B  
NAT: AACSB Ethics

DIF: 1

REF: How Organizations Shape Ethical Conduct  
MSC: KN

44. Games such as the Ethics Challenge can help to improve ethical \_\_\_\_\_.
- a. awareness
  - b. reasoning
  - c. leadership

d. action

ANS: B                      DIF: 2  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: KN

45. Providing the necessary tools for employees to evaluate options and arrive at suitable decisions is called ethical \_\_\_\_\_.  
a. awareness  
b. reasoning  
c. action  
d. leadership

ANS: B                      DIF: 1  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: KN

46. Providing structures and approaches will help to foster ethical \_\_\_\_\_ among employees.  
a. awareness  
b. reasoning  
c. action  
d. leadership

ANS: C                      DIF: 1  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: KN

47. Macrohard, Inc. provides support for employees faced with ethical dilemmas. An ethics officer is available in the Human Resources office or through an employee hotline. This is an example of ethical \_\_\_\_\_.  
a. leadership  
b. awareness  
c. action  
d. reasoning

ANS: C                      DIF: 3  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: AP

48. A company hands out cards to employees designed to help them make ethical decisions. This is an example of ethical \_\_\_\_\_.  
a. leadership  
b. awareness  
c. action  
d. reasoning

ANS: C                      DIF: 3  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: AP

49. After meeting with employees, a manager realizes she has set performance goals unrealistically high for her department's employees. If she makes employee performance goals more realistic, what will likely happen to the department's ethical climate?  
a. It will improve.  
b. It will stay about the same.  
c. It will deteriorate.  
d. It will deteriorate initially and then improve.

ANS: A                      DIF: 2  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: AP

50. When a firm strives to have each individual personally committed to the company's core values and be willing to base their actions on them, this is ethical \_\_\_\_\_.  
a. leadership  
b. awareness  
c. action  
d. reasoning

ANS: A                      DIF: 2  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: KN

51. The sales manager decides to double each salesperson's monthly quota. What impact is this action likely to have on the company's ethical climate?  
a. It will improve.  
b. It will remain the same.  
c. It will deteriorate.  
d. It will initially deteriorate and then improve.

ANS: C                      DIF: 2  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: AP

52. One of the best measures of ethical \_\_\_\_\_ is how well a company focuses on the welfare of its investors, customers, and employees, and how well it performs in the long run.  
a. awareness  
b. reasoning  
c. action  
d. leadership

ANS: D                      DIF: 1  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: KN

53. Jack Welch, former CEO of General Electric, is respected in business circles for focusing his company on the welfare of its customers and investors, and for ensuring GE would thrive in the long run. This type of environment is an example of ethical \_\_\_\_\_.  
a. leadership  
b. action  
c. awareness  
d. reasoning

ANS: A                      DIF: 2  
NAT: AACSB Ethics

REF: How Organizations Shape Ethical Conduct  
MSC: AP

54. Historically, which of the following were considered a measure for evaluating a firm's social performance?  
a. Employment opportunities  
b. Product safety standards  
c. Industrial safety standards  
d. Pollution control standards

ANS: A                      DIF: 1  
NAT: AACSB Ethics

REF: Acting Responsibly to Satisfy Society  
MSC: KN

55. Which of the following would be LEAST likely to be a factor in evaluating a firm's social performance?  
a. Providing a safe, healthy workplace  
b. Respecting the cultural diversity of employees

- c. Holding company-sponsored social events
- d. Producing safe, high-quality products

ANS: C                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

56. Businesses exercise social responsibility for all of the following reasons EXCEPT \_\_\_\_\_.
- a. the law requires it
  - b. the company will become more profitable
  - c. the company's image is enhanced
  - d. management believes it's the ethical course of action

ANS: B                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

57. When Target stores donate 5 percent of its federally taxable income to nonprofit groups, the company is highlighting its \_\_\_\_\_.
- a. social audit
  - b. code of conduct
  - c. business ethics
  - d. social responsibility

ANS: D                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

58. A formal procedure that identifies and evaluates all company activities relating to social issues is known as a(n) \_\_\_\_\_.
- a. ethical profile
  - b. social audit
  - c. social inventory
  - d. mission analysis

ANS: B                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

59. In addition to financial assessments, Dominic has arranged for his company to conduct a(n) \_\_\_\_\_ to evaluate activities that relate to social issues, such as employment practices, environmental protection, and philanthropy.
- a. social audit
  - b. EEOC evaluation
  - c. code of conduct
  - d. social responsibility inventory

ANS: A                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

60. The Wright Tire Co. uses a company-wide team of employees to identify company activities related to social issues, report on how the firm is responding to those issues, and evaluate how effectively the firm has met those issues. The Wright Tire team is conducting a(n) \_\_\_\_\_.
- a. environmental impact audit
  - b. government-mandated audit
  - c. internal accounting audit
  - d. social audit

ANS: D                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP



61. Pollution \_\_\_\_\_.  
a. is of concern only to business  
b. can only occur in forests or oceans  
c. primarily occurs as the result of natural forces  
d. causes damage or tainting of a natural environment

ANS: D                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

62. Reprocessing used materials so they can be reused is known as \_\_\_\_\_.  
a. rotation  
b. recycling  
c. ecology  
d. conversion

ANS: B                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

63. A strategy that promotes environmentally friendly products and production methods is called \_\_\_\_\_.  
a. consumerism  
b. recycling  
c. ethical awareness  
d. green marketing

ANS: D                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

64. In the U.S. most new jobs require \_\_\_\_\_ and the gap between the highest-paid and lowest-paid workers has been \_\_\_\_\_.  
a. high-school degrees only; increasing  
b. high-school degrees only; decreasing  
c. college-educated workers; increasing  
d. college-education workers; decreasing

ANS: C                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

65. All of the following are examples of corporate philanthropy EXCEPT \_\_\_\_\_.  
a. supporting the local public radio station  
b. sponsoring a Red Cross blood drive  
c. paying local property taxes  
d. giving employees release time to participate in volunteer activities

ANS: C                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Reflective Thinking                      MSC: AP

66. During the Olympics, several Nike ads were aired that demonstrated the company's sponsorship of various events. Nike was using \_\_\_\_\_ to align their marketing efforts with charitable giving.  
a. business ethics  
b. cause-related marketing  
c. social responsibility  
d. ethical awareness

ANS: B                      DIF: 2                      REF: Acting Responsibly to Satisfy Society

67. The public demand that businesses give proper consideration to consumer wants and needs in making its decisions is known as \_\_\_\_\_.  
a. consumerism  
b. political activism  
c. conservation  
d. ethics

ANS: A

DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Analytic

MSC: KN

68. Consumer Rights include all of the following EXCEPT the right to \_\_\_\_\_.  
a. boycott  
b. choose  
c. be heard  
d. be informed

ANS: A

DIF: 3

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Analytic

MSC: KN

69. According to \_\_\_\_\_ standards, when a drug company purchases a television ad, the company is required to describe potential side effects of the drug, or at least provide a phone number or Web site address for additional information.  
a. Food and Drug Administration  
b. Occupational Safety and Health Administration  
c. consumer compliance  
d. Securities and Exchange Commission

ANS: A

DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Analytic

MSC: KN

70. Which federal agency is responsible for ensuring the safety of prescription drugs?  
a. FDA  
b. FTC  
c. SEC  
d. FCC

ANS: A

DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Analytic

MSC: KN

71. The doctrine of "the right to be heard" would be best reflected by \_\_\_\_\_.  
a. product safety  
b. disclosure of true annual interest rates on revolving charge accounts  
c. disclosure of sodium content on labels of processed foods  
d. a firm establishing a consumer appeals board

ANS: D

DIF: 3

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Reflective Thinking

MSC: AP

72. Which federal agency is responsible for setting workplace health and safety standards?  
a. FTC  
b. FDA  
c. OSHA  
d. FCC

ANS: C                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

73. All of the following are current social issues related to business's responsibilities to employees EXCEPT \_\_\_\_\_.

- a. sexual harassment
- b. discrimination against older workers
- c. discrimination against workers who earn minimum wage
- d. quality of life issues

ANS: C                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

74. Matt was diagnosed with a serious illness that requires aggressive treatment. Since his company employs 50 or more people, it must allow Matt up to 12 weeks unpaid time off in one year, as granted by the \_\_\_\_\_.

- a. Vocational Rehabilitation Act
- b. Equal Employment Opportunity Commission
- c. Occupational Safety and Health Administration
- d. Family and Medical Leave Act

ANS: D                      DIF: 3                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Reflective Thinking                      MSC: AP

75. All of the following groups are specifically identified by federal equal employment opportunity laws EXCEPT \_\_\_\_\_.

- a. Vietnam-era veterans
- b. obese persons
- c. handicapped persons
- d. persons over age 40

ANS: B                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Diversity                      MSC: KN

76. Approximately what percentage of managerial and professional positions is currently held by women?

- a. About 50 percent
- b. About 33 percent
- c. About 25 percent
- d. Less than 25 percent

ANS: A                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Diversity                      MSC: KN

77. Companies that adhere to high ethical standards \_\_\_\_\_.

- a. often make poorer investments in the long run
- b. often make better investments in the long run
- c. always make higher profits
- d. always make lower profits

ANS: B                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

78. Which of the following is an ethical issue dealing with a company and its direct relations with investors and the financial community?

- a. Questionable accounting practices

- b. Being insensitive to cultural differences among employees
- c. Forcing older workers to retire
- d. Paying women less than men

ANS: A                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

## TRUE/FALSE

1. Social and ethical issues affect every company.

ANS: T                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

2. Organizations wishing to prosper cannot do so without considering business ethics.

ANS: T                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

3. The Sarbanes-Oxley Act requires that each member of a firm's accounting department certify the truthfulness of financial statements.

ANS: F                      DIF: 2                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

4. Teresa discovered unlawful conduct at her company and notified authorities. Under the Sarbanes-Oxley Act of 2002, anyone who retaliates against Teresa can be prosecuted.

ANS: T                      DIF: 3                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

5. Halting the production and sale of a potentially dangerous product, even if it hurts profits, is an example of ethical behavior.

ANS: T                      DIF: 2                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

6. Fundamentally, a business is responsible only to its customers and investors.

ANS: F                      DIF: 2                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

7. Putting profits ahead of safety is an example of reasonable business behavior.

ANS: F                      DIF: 2                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

8. Businesses must find a balance between doing what is right and doing what is profitable.

ANS: T                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

9. Setting appropriate ethical standards is a fairly straightforward task for most managers.

ANS: F                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

10. All companies consistently set and meet high ethical standards.

ANS: F                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

11. The Sarbanes-Oxley Act is a state law and can vary from state to state.

ANS: F                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

12. Individual employees have little influence over ethical expectations and behavior.

ANS: F                      DIF: 1                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: KN

13. A single employee acting ethically will have little influence on his or her co-workers.

ANS: F                      DIF: 2                      REF: Concern for Ethical and Societal Issues  
NAT: AACSB Ethics                      MSC: AP

14. The U.S. Sentencing Commission was created to institutionalize ethics compliance programs.

ANS: T                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

15. Technology has expanded the range and impact of unethical behavior.

ANS: T                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics | AACSB Technology                      MSC: KN

16. Some employees rationalize questionable or unethical behavior by saying, "Everyone does it."

ANS: T                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

17. The highest level of ethical and moral behavior is known as the postethical stage.

ANS: F                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

18. Some people engage in activities that are contrary to their personal and moral values because they feel pressured on their jobs.

ANS: T                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

19. Individuals at the same stage of ethical development always adopt the same style for resolving ethical dilemmas.

ANS: F                      DIF: 2                      REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

20. Preconventional behavior is the term used to describe an employee's disclosure to the media or government authorities of illegal, immoral, or unethical practices of the organization.

ANS: F

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

21. Sara refrains from "padding" her expense account because it will hurt the company. Sara is at the conventional stage of moral and ethical development.

ANS: T

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

22. Jorge is a lawyer whose work habits help his company, as well as society in general. Jorge is at the postconventional stage of moral and ethical development.

ANS: T

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

23. It is not easy to distinguish between right and wrong in many business situations.

ANS: T

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

24. On-the-job ethical dilemmas are very rare, but can be quite significant.

ANS: F

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

25. An ad agency representing two companies that compete with one another has an obvious conflict of interest.

ANS: T

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

26. A conflict of interest exists when a person is faced with a decision in which an action will harm one individual or group while benefiting another.

ANS: T

DIF: 1

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

27. A real estate agent can represent both the buyer and seller without any conflict of interest.

ANS: F

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: AP

28. The only safe way to handle a potential conflict of interest is to avoid situations in which one might occur.

ANS: F

DIF: 2

REF: The Contemporary Ethical Environment

NAT: AACSB Ethics

MSC: KN

29. Integrity goes beyond truthfulness.

ANS: T                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

30. The personality traits most sought in job applicants are loyalty and truthfulness.

ANS: F                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

31. Employers expect employees to generally act in the best interests of the organization.

ANS: T                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

32. In the real world of business, loyalty and honesty rarely conflict with one another.

ANS: F                      DIF: 1                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: KN

33. Employees should always be loyal, regardless of the situation.

ANS: F                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

34. An employee "goes public" with evidence of improper actions by his or her employer. This employee is a whistle-blower.

ANS: T                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

35. Whistle-blowers always act out of self-interest.

ANS: F                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

36. Loyal employees would never be whistle-blowers.

ANS: F                      DIF: 2                      REF: The Contemporary Ethical Environment  
NAT: AACSB Ethics                      MSC: AP

37. Most ethical lapses in business reflect the values of the firm's corporate culture.

ANS: F                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

38. Development of a corporate culture to support business ethics occurs on the following levels: ethical climate, ethical awareness, ethical reasoning, and ethical action.

ANS: F                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

39. A code of conduct is an informal proposal that suggests how the organization expects employees to make decisions.

ANS: F                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

40. In addition to codes of conduct and ethical training, firms should provide structures and approaches that allow decisions to be turned into ethical actions.

ANS: T                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

41. One of the first steps in the establishment of sound business ethics is to help employees identify ethical problems when they occur.

ANS: T                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

42. Formally stating that employees must not discriminate on the basis of race, gender, or age in their dealings with customers is something that could be found in a company code of conduct.

ANS: T                      DIF: 2                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics | AACSB Diversity                      MSC: AP

43. A code of conduct rarely goes beyond stating the rules, laws, and regulations employees are expected to follow.

ANS: F                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

44. A code of conduct is part of the ethical awareness stage of ethical development.

ANS: T                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

45. Many ethical dilemmas involve gray areas that may require individuals to sort through several courses of actions, each with its own set of consequences.

ANS: T                      DIF: 1                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

46. When it comes to properly resolving ethical dilemmas, most experts believe that there is no substitute for practical experience.

ANS: T                      DIF: 2                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: AP

47. Providing employees with tools to help them evaluate options and arrive at suitable decisions is part of the ethical action stage of ethical development.

ANS: F                      DIF: 2                      REF: How Organizations Shape Ethical Conduct  
NAT: AACSB Ethics                      MSC: KN

48. A manager doubles employee performance goals every quarter. This action will likely increase the amount of ethically questionable actions by employees.

ANS: T                      DIF: 2                      REF: How Organizations Shape Ethical Conduct



NAT: AACSB Ethics

MSC: AP

49. If managers and supervisors fail to show ethical leadership, it is unrealistic to expect employees to behave ethically.

ANS: T DIF: 1

REF: How Organizations Shape Ethical Conduct

NAT: AACSB Ethics

MSC: KN

50. A company's CEO alone determines the ethical climate of the business.

ANS: F DIF: 1

REF: How Organizations Shape Ethical Conduct

NAT: AACSB Ethics

MSC: KN

51. Social responsibility is management's acceptance of the obligation to consider societal well-being and consumer satisfaction as being equally important as profit when evaluating the firm's performance.

ANS: T DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

52. The primary social responsibility of a company is to the general public.

ANS: F DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

53. In the past, a firm's social responsibility was usually evaluated on the basis of its contribution to the overall economy and the employment opportunities it provided.

ANS: T DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

54. A social audit is used to measure a company's social responsibility performance.

ANS: T DIF: 1

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

55. Outside groups often conduct their own evaluations of businesses, but firms typically ignore these reports in favor of internal evaluations.

ANS: F DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Reflective Thinking

MSC: AP

56. Social audits conducted internally are of little value because they are always biased in favor of the company.

ANS: F DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: AP

57. Although social responsibility in a business is commendable, most companies are not judged by their interactions within the community.

ANS: F DIF: 2

REF: Acting Responsibly to Satisfy Society

NAT: AACSB Ethics

MSC: KN

58. Social audits are merely informal business surveys that require no strategies for improvements.

ANS: F                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

59. Corporate philanthropy is the notion that businesses should give back to the communities where they earn their profits.

ANS: T                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

60. Helping employees stop smoking is an example of a social responsibility revolving around public health.

ANS: T                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

61. Environmental issues are becoming less important concerns of the public.

ANS: F                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

62. Recycling can provide a substantial portion of the materials required in manufacturing businesses.

ANS: T                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

63. A “green” product that claims to be environmentally friendly must be substantiated in accordance with guidelines presented by the Federal Trade Commission.

ANS: T                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

64. The gap between what workers with college degrees earn and what those with high school degrees earn has gotten smaller in recent years.

ANS: F                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

65. Paying taxes is an example of corporate philanthropy.

ANS: F                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

66. Consumerism is the concept that business must give consideration to employee wants and needs.

ANS: F                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

67. One of the goals of consumerism is for consumers to have access to enough education and production information to make responsible purchase decisions.

ANS: T                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

68. The area of business responsibilities to company personnel is increasing.

ANS: T                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

69. The Occupational Safety and Health Administration (OSHA) sets standards for workplace safety, but it does not track or investigate workplace accidents.

ANS: F                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Analytic                      MSC: KN

70. The Civil Rights Act of 1964 includes a title that specifically prohibits discrimination in employment.

ANS: T                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Diversity                      MSC: KN

71. Lauren noticed an explicit calendar on her co-worker's wall. Her employer can ask the co-worker to remove the calendar, but the situation does not constitute sexual harassment since Lauren was not spoken to or approached in an inappropriate manner.

ANS: F                      DIF: 3                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

72. Sexual harassment is divided into two categories: pressure to comply with unwelcome advances for job security, and a hostile work environment.

ANS: T                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

73. Investors are generally unconcerned with whether a company is behaving ethically; instead, they only focus on whether or not it is making a profit.

ANS: F                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

74. The principal federal agency responsible for protecting investors from financial misdeeds is the Federal Trade Commission.

ANS: F                      DIF: 1                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: KN

75. Companies who fail to follow high ethical standards often see their stock prices drop.

ANS: T                      DIF: 2                      REF: Acting Responsibly to Satisfy Society  
NAT: AACSB Ethics                      MSC: AP

## Chapter 3—Economic Challenges Facing Global and Domestic Business

### MATCHING

*Complete the following using the terms listed.*

- a. Consumer Price Index
- b. inflation
- c. gross domestic product
- d. fiscal policy
- e. monetary policy
- f. equilibrium price
- g. budget deficit
- h. pure competition
- i. supply
- j. demand
- k. productivity
- l. recession
- m. planned economy
- n. oligopoly
- o. monopoly

1. \_\_\_\_\_ measures the monthly average change in prices of goods and services.
2. \_\_\_\_\_ results in rising prices caused by a combination of excess consumer demand and increases in the costs of raw materials.
3. Attempting to bring about changes in economic activity through changes in the size of the nation's money supply is called \_\_\_\_\_.
4. \_\_\_\_\_ is the amount of goods and services available at various prices.
5. The market price where the supply and demand curves meet is the \_\_\_\_\_.
6. If the government spends more than it collects in taxes, then a(n) \_\_\_\_\_ occurs.
7. The use of government tax and spending policies to bring about desired changes in the economy is called \_\_\_\_\_.
8. \_\_\_\_\_ is the sum of all goods and services produced within a country's boundaries.
9. \_\_\_\_\_ refers to the willingness and ability of buyers to purchase goods and services at various prices.
10. An economic system where government controls determine such things as business ownership and resource allocation is called a(n) \_\_\_\_\_.
11. During a(n) \_\_\_\_\_, consumers frequently postpone major purchases and shift buying patterns toward basic, functional products carrying low prices.
12. \_\_\_\_\_ is a market structure characterized by a large number of buyers and sellers exchanging relatively homogenous products, with no single participant having a significant influence on price.
13. A(n) \_\_\_\_\_ is characterized by relatively few sellers and barriers to entry due to high start-up costs.
14. In a(n) \_\_\_\_\_ a single seller dominates trade in a product for which buyers can find no close substitute.
15. \_\_\_\_\_ is the relationship between the goods and services produced in a nation each year and the inputs needed to produce them.

1. ANS: A                      DIF: 2  
NAT: AACSB Analytic
2. ANS: B                      DIF: 2  
NAT: AACSB Analytic
3. ANS: E                      DIF: 2  
NAT: AACSB Analytic
4. ANS: I                      DIF: 2

- REF: Evaluating Economic Performance  
MSC: KN
- REF: Evaluating Economic Performance  
MSC: KN
- REF: Managing the Economy's Performance  
MSC: KN
- REF: Microeconomics: The Forces of Supply and

	Demand				
	NAT: AACSB Analytic			MSC: KN	
5.	ANS: F	DIF: 2		REF: Microeconomics: The Forces of Supply and Demand	
	NAT: AACSB Analytic			MSC: KN	
6.	ANS: G	DIF: 2		REF: Managing the Economy's Performance	
	NAT: AACSB Analytic			MSC: KN	
7.	ANS: D	DIF: 2		REF: Managing the Economy's Performance	
	NAT: AACSB Analytic			MSC: KN	
8.	ANS: C	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	
9.	ANS: J	DIF: 2		REF: Microeconomics: The Forces of Supply and Demand	
	NAT: AACSB Analytic			MSC: KN	
10.	ANS: M	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
11.	ANS: L	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	
12.	ANS: H	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
13.	ANS: N	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
14.	ANS: O	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
15.	ANS: K	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	

## ESSAY

1. What is economics? Why is understanding economics important when studying business?

ANS:

Economics is a social science that analyzes the choices made by individuals and organizations in the allocation of scarce resources. Individuals make economic decisions every day when they decide what to buy, what services to use, and so forth. Businesses also make economic decisions when they choose how to use human and natural resources, invest in machinery and buildings, and form partnerships with other firms. The choices made by individuals and businesses are affected by economic conditions, and, in turn, their decisions affect economic conditions.

DIF: 3      REF: Chapter Overview      NAT: AACSB Reflective Thinking  
MSC: AP

2. Differentiate between macroeconomics and microeconomics. What economic activities might you study under each?

ANS:

Macroeconomics deals with the economy as a whole, while microeconomics is concerned with the economic activities of individual consumers, families, and businesses. Macroeconomics addresses such issues as how an economy uses its resources, as well as government policies that affect people's standards of living. Microeconomics addresses such issues as how businesses make economic decisions.

DIF: 3  
MSC: AP

REF: Chapter Overview NAT:

AACSB Reflective Thinking

3. Distinguish between the demand curve and the supply curve.

ANS:

The demand curve is a graph of the amount of a product that buyers will purchase at various prices. Demand curves typically slope downward. The supply curve shows the relationship between various prices and the quantities that sellers will offer for sale, regardless of demand.

DIF: 2 REF: Microeconomics: The Forces of Demand and Supply NAT:  
AACSB Analytic  
MSC: KN

4. List the factors that should cause a demand curve to shift to the right.

ANS:

The factors are an increase in customer preferences, increase in the number of buyers, increase in buyers' incomes, increase in the prices of substitute goods, decrease in the price of complementary goods, and more optimistic expectations concerning the future.

DIF: 2 REF: Microeconomics: The Forces of Demand and Supply NAT:  
AACSB Analytic  
MSC: KN

5. List the factors that should cause a supply curve to shift to the left.

ANS:

The factors are an increase in the cost of inputs, an increase in the cost of technologies, an increase in taxes, and a decrease in the number of suppliers.

DIF: 2 REF: Microeconomics: The Forces of Demand and Supply NAT:  
AACSB Analytic  
MSC: KN

6. Explain how the interaction of supply and demand will correct a surplus or shortage.

ANS:

If there is a surplus, the price is too high. When price starts to fall, more units will be purchased and fewer units will be produced. This will eliminate the surplus. If the price is too low, a shortage will exist causing prices to rise. The increase in price will cause fewer sales and more units to be produced, eliminating the surplus.

DIF: 3 REF: Microeconomics: The Forces of Demand and Supply NAT:  
AACSB Reflective Thinking  
MSC: AP

7. List the four Factors of Production and explain how these factors influence the overall supply of goods and services.

ANS:

The four Factors of Production are natural resources, human resources, capital, and entrepreneurship. A change in the cost or availability of any of these inputs can shift the entire supply curve, either increasing or decreasing the amount available at every price.

DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply                      NAT:  
AACSB Reflective Thinking  
MSC: AP

8. Describe how worker incentives vary in each of the four economic systems.

ANS:

In a capitalist system, considerable incentives exist to motivate people to perform at their highest levels. Most communist systems traditionally had little in the way of worker incentives, though some are beginning to emerge. In a socialist economy, incentives are limited in state enterprises but do exist in privately owned firms. In a mixed economy, capitalist-style incentives operate in the private sector. Worker incentives are more limited in the public sector.

DIF: 3                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

9. Define a monopoly and an oligopoly in the private enterprise system.

ANS:

A monopoly is a market structure with only a single seller. A pure monopoly is a firm that has such unique characteristics that no other firm can enter the market successfully. Unless the condition is temporary (caused by a patent) or unless it is regulated, it is illegal in the U.S. An oligopoly is a market structure in which relatively few sellers compete. High start-up costs create barriers to keep out new competitors.

DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

10. What are the major differences between socialism and a mixed economic system?

ANS:

In a socialist economy, the government owns industries that are considered to be of vital importance, such as energy firms, major manufacturing firms, and transportation systems. Socialist countries allow limited private ownership of small businesses and industries that are not considered to be as vital. In a mixed economy, a strong private sector exists. It is much larger than the private sector in a socialist economy. In a mixed economy, some public enterprises operate as well. The rights to profits are stronger in a mixed economy and even public enterprises are expected to at least break even. Worker incentives are also stronger in a mixed economy than they are in a socialist economy.

DIF: 3                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

11. What is a business cycle? What are the four stages of the business cycle?

ANS:

A business cycle refers to the cyclical expansion and contraction in a nation's economy. The four stages are: prosperity, recession, depression, and recovery. Most economists believe that the government has sufficient tools to prevent a recession from becoming a depression. Therefore, a recession is typically followed by a recovery.

DIF: 2  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

12. Distinguish between demand-pull inflation and cost-push inflation. Give an example of each.

ANS:

Demand-pull inflation is caused by an increase in the demand for a good or service. An example might be higher housing prices as a result of higher incomes. Cost-push inflation is caused by an increase in the cost of producing a good or service. An example might be an increase in airline ticket prices caused by higher jet fuel prices.

DIF: 2  
MSC: AP

REF: Evaluating Economic Performance NAT: AACSB Reflective Thinking

13. Define the Consumer Price Index, and explain how its measured by the U.S. government.

ANS:

The Consumer Price Index measures the monthly average change in prices of goods and services. The index is based on prices of a market basket, which is a compilation of the goods and services most commonly purchased by urban consumers.

DIF: 2  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

14. Describe the four categories of unemployment.

ANS:

The four categories of unemployment are:

- a. frictional workers who are temporarily out of work but are looking for a job.
- b. seasonal workers laid off from a seasonal job.
- c. cyclical workers who are laid off due to an economic contraction (recession).
- d. structural workers who have been out of work for a long period of time with little hope of finding a similar job.

DIF: 3  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

15. Describe monetary policy. Who in the United States is in control of it and how does it work?

ANS:

Monetary policy in the U.S. is controlled by the Federal Reserve System. It involves reducing the money supply that causes higher interest rates and slows down the economy, or increasing the money supply to lower interest rates and stimulate economic growth.

DIF: 2  
Thinking  
MSC: AP

REF: Managing the Economy's Performance NAT: AACSB Reflective

16. What is fiscal policy? How can fiscal policy affect economic conditions?

ANS:



Fiscal policy deals with taxing and spending decisions made by the government. Generally, increases in taxes or decreases in spending will tend to reduce inflation and slow economic growth. Increases in spending or decreases in taxes often have the opposite effect.

DIF: 2                      REF: Managing the Economy's Performance                      NAT: AACSB Reflective Thinking  
MSC: AP

17. List five challenges to maintain global competitiveness.

ANS:  
Threat of international terrorism  
Shift to a global information economy  
Aging of the world's population  
Growth of China and India  
Enhancing competitiveness of every country's workforce

DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century                      NAT: AACSB  
Analytic  
MSC: KN

### **MULTIPLE CHOICE**

1. Which of the following fields is concerned with understanding the choices people make in using scarce resources?
- Statistics
  - Psychology
  - Accounting
  - Economics

ANS: D                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

2. \_\_\_\_\_ is the study of the economic choices of individual consumers, families, or businesses.
- Macroeconomics
  - Microeconomics
  - Entrepreneurship
  - Consumer behavior

ANS: B                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

3. The study of macroeconomics is \_\_\_\_\_.
- not related to microeconomics
  - primarily concerned with individual businesses and decisions
  - concerned with studying the overall economy
  - not related to government decisions concerning spending and taxes

ANS: C                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

4. Williams & Co. management is trying to decide the appropriate prices for various products sold by the firm. This is a focus of \_\_\_\_\_.
- a. Microeconomics
  - b. Macroeconomics
  - c. fiscal policy
  - d. monetary policy

ANS: A

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

5. Individual and business decisions are \_\_\_\_\_ by economic conditions and, in turn, economic conditions are \_\_\_\_\_ by their decisions.
- a. affected; not affected
  - b. affected; affected
  - c. not affected; not affected
  - d. not affected; affected

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

6. The U.S. Congress is considering a bill designed to cut taxes. This is a focus of \_\_\_\_\_.
- a. Macroeconomics
  - b. monetary policy
  - c. Microeconomics
  - d. consumer behavior

ANS: A

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

7. Hailey's research firm was hired by a discount superstore to provide a detailed evaluation regarding consumer preferences. Hailey's analysis involves the study of \_\_\_\_\_.
- a. Economics
  - b. private enterprise system
  - c. Microeconomics
  - d. Macroeconomics

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

8. The willingness and ability of sellers to provide goods and services for sale in a market is referred to as \_\_\_\_\_.
- a. Supply
  - b. the equilibrium price
  - c. Microeconomics
  - d. Demand

ANS: A

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

9. \_\_\_\_\_ refers to the willingness and ability of buyers to purchase goods and services.

- a. Consumer behavior
- b. Customer preference
- c. Supply
- d. Demand

ANS: D

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

10. If the number of buyers increases, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

11. If buyers' incomes decrease, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: B

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

12. If the prices of substitute goods increase, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

13. A demand curve will shift to the left if the \_\_\_\_\_.

- a. number of buyers increases
- b. buyers' incomes decrease
- c. future expectations become more optimistic
- d. prices of substitute goods increase

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

14. The curve that shows the relationship between different prices and the quantity requested at each price is the \_\_\_\_\_ curve.

- a. Equilibrium
- b. Supply

- c. Buying
- d. Demand

ANS: D                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

15. Which of the following statements about demand curves is true?
- a. When the price rises, demand increases.
  - b. When the price falls, demand decreases.
  - c. When the price falls, demand increases.
  - d. When the price falls, supply increases.

ANS: C                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

16. A demand curve is the schedule that shows the relationship between the price of a product and \_\_\_\_\_.
- a. overhead costs
  - b. the costs of marketing the product
  - c. the quantity of that product that buyers demand at that price
  - d. the quantity supplied at each price

ANS: C                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

17. Which of the following factors will NOT result in a shift in the supply curve?
- a. Change in the number of suppliers
  - b. Change in the price of substitute goods
  - c. Cost savings resulting from new technology
  - d. Change in the costs of labor

ANS: B                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

18. All of the following can shift the demand curve to either the right or left EXCEPT \_\_\_\_\_.
- a. change in the cost of inputs
  - b. change in the number of buyers
  - c. change in the income of buyers
  - d. buyers' attitudes about the future

ANS: A                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

19. An increase in consumers' incomes causes the \_\_\_\_\_.
- a. supply curve to shift to the right
  - b. demand curve to shift to the right
  - c. supply curve to shift to the left
  - d. demand curve to shift to the left

ANS: B                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

20. A supply curve is a(n) \_\_\_\_\_.  
a. upward sloping curve  
b. downward sloping curve  
c. vertical line  
d. horizontal line

ANS: A

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

21. According to a supply curve, \_\_\_\_\_.  
a. as prices rise, quantity of a product supplied falls  
b. as prices fall, quantity of a product supplied increases  
c. as prices rise, consumers will buy in larger quantities  
d. as prices rise, the quantity of a product that is supplied also rises

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

22. If the cost of producing a good or service declines, the supply curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.  
a. right; fall  
b. right; rise  
c. left; fall  
d. left; rise

ANS: A

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

23. As the number of suppliers of a product declines, the supply curve shifts to the \_\_\_\_\_ and the price will \_\_\_\_\_.  
a. right; fall  
b. right; rise  
c. left; fall  
d. left; rise

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

24. Assume the price of gasoline triples. What will likely happen to the demand for large SUVs? The demand curve will shift to the \_\_\_\_\_ and demand will \_\_\_\_\_.  
a. left; decrease  
b. left; increase  
c. right; decrease  
d. right; increase

ANS: A

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

25. The equilibrium price is established when the quantity \_\_\_\_\_.  
a. purchased is equal to the quantity offered  
b. supplied is equal to the amount of raw materials available  
c. bought is equal to the quantity demanded  
d. demanded is equal to the quantity supplied at a lower price

ANS: A

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

26. If the market price is above the equilibrium price, \_\_\_\_\_.  
a. producers will earn large profits  
b. consumers will go on strike and not purchase any of the product  
c. the demand curve will shift to the right causing the surplus to go away  
d. a surplus will occur and prices and production will fall

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

27. A surplus will occur when \_\_\_\_\_.  
a. production quantities are falling  
b. price is above the equilibrium point  
c. price is below the equilibrium point  
d. the demand curve is shifting to the right

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

28. A shortage will occur when \_\_\_\_\_.  
a. production quantities are rising  
b. prices are falling  
c. price is below the equilibrium point  
d. the demand curve is shifting to the left

ANS: C

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

29. Supply and demand correct a shortage by \_\_\_\_\_.  
a. reducing the product price to decrease production  
b. raising the price to decrease production  
c. keeping the price the same but decreasing production  
d. raising the price to increase production

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

30. Holding supply constant and decreasing demand will cause \_\_\_\_\_.  
a. prices to rise and production to fall  
b. prices to fall and production to rise  
c. prices and production both to fall  
d. prices and production both to rise

ANS: C                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

31. The three major types of economic systems are \_\_\_\_\_.  
a. capitalism, planned economies, and mixed economies  
b. capitalism, pure competition, and planned economies  
c. capitalism, monopoly, and mixed economies  
d. capitalism, oligopoly, and planned economies

ANS: A                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

32. Most industrialized nations operate economies based on \_\_\_\_\_.  
a. planned economies  
b. private enterprise systems  
c. mixed economies  
d. socialist systems

ANS: B                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

33. Entrepreneurs have the most economic freedom in which type of economy?  
a. Communism  
b. Socialism  
c. Capitalism  
d. Mixed economy

ANS: C                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

34. Incentives to motivate employees to perform at their highest level are strongest in \_\_\_\_\_ systems.  
a. Capitalist  
b. Communist  
c. Socialist  
d. Monopolistic

ANS: A                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

35. Which of the following is considered to be the BEST example of pure competition in today's business environment?  
a. Agriculture  
b. The airline industry  
c. The electric and gas utility industries  
d. Major League Baseball

ANS: A                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

36. A particular industry has many competitors, each of whom has little control over price. In addition, it is fairly easy to enter the industry. This industry is an example of \_\_\_\_\_.  
a. pure competition  
b. monopolistic competition

- c. an oligopoly
- d. a pure monopoly

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

37. Monopolistic competition has \_\_\_\_\_.
- a. only one seller
  - b. many buyers and sellers, none of whom can control prices
  - c. only a few sellers
  - d. many buyers and sellers, and the sellers have some control over price

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

38. Consumers can choose from hundreds of different kinds and producers of cheese, each with a slightly different flavor and texture. This type of market structure is known as \_\_\_\_\_.
- a. pure competition
  - b. monopolistic competition
  - c. a monopoly
  - d. an oligopoly

ANS: B                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

39. The four different types of market structure in a private enterprise system are \_\_\_\_\_.
- a. communism, socialism, capitalism, and mixed systems
  - b. pure competition, monopolistic competition, oligopoly, and monopoly
  - c. socialism, oligopoly, monopoly, and pure competition
  - d. mixed, socialism, communism, and pure competition

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

40. A particular industry has only a few competitors, who have at least some control over price. Entry into the industry is difficult. This industry is an example of \_\_\_\_\_.
- a. pure competition
  - b. monopolistic competition
  - c. an oligopoly
  - d. a pure monopoly

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

41. Which of the following market structures best describes the U.S. auto industry?
- a. Monopoly
  - b. Pure competition
  - c. Monopolistic competition
  - d. Oligopoly

ANS: D                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

42. There is no direct competition in a particular industry, yet the firms have almost no control over pricing. This industry is an example of \_\_\_\_\_.
- a. monopolistic competition



- b. a regulated monopoly
- c. an oligopoly
- d. a pure monopoly

ANS: B                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Control over price by individual firms is highest in a(n) \_\_\_\_\_.
- a. regulated monopoly
  - b. Oligopoly
  - c. pure monopoly
  - d. monopolistically competitive industry

ANS: C                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

44. Barriers to entry into an industry are highest in \_\_\_\_\_.
- a. pure competition
  - b. an oligopoly
  - c. a monopoly
  - d. monopolistic competition

ANS: C                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

45. Unless it is regulated or only temporary, the market situation called \_\_\_\_\_ is prohibited in the U.S. through antitrust legislation.
- a. Communism
  - b. Monopoly
  - c. Oligopoly
  - d. monopolistic competition

ANS: B                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

46. Which of the following best describes your local cable TV company?
- a. Pure monopoly
  - b. Oligopoly
  - c. Monopolistic competition
  - d. Regulated monopoly

ANS: D                      DIF: 3                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

47. Before the patent expired on allergy medicine Claritin, pharmaceutical company Schering-Plough was able to set its own price in the marketplace. From which type of competition did the company benefit?
- a. Oligopoly
  - b. Pure competition
  - c. Monopolistic competition
  - d. Monopoly

ANS: D                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

48. \_\_\_\_\_ is an economic system in which private property is eliminated.
- a. Socialism

- b. Capitalism
- c. Monopoly
- d. Communism

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

49. Under communism, \_\_\_\_\_.
- a. businesses are owned by individuals
  - b. management represents the owners
  - c. there is minimal government interference
  - d. profits are not acceptable and the right to choose one's occupation is widely restricted

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

50. In a \_\_\_\_\_ system, the government owns all of the nation's major industries, but still allows private ownership in less crucial areas.
- a. Communism
  - b. Socialism
  - c. Capitalism
  - d. mixed economy

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

51. In a particular country, the government owns all the transportation companies, the utilities, the energy suppliers, and major manufacturing firms. Small businesses are privately owned. What type of economic system does this country have?
- a. Communism
  - b. Socialism
  - c. Capitalism
  - d. Mixed economy

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

52. \_\_\_\_\_ has a blend of both planned and free enterprise system.
- a. Capitalism
  - b. Communism
  - c. A mixed market economy
  - d. A private government economy

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

53. A country has a strong private sector, along with publicly owned enterprises. Entrepreneurs and private-sector investors are entitled to profits, after taxes, and even state-owned enterprises are expected to at least break even. What type of economic system does this country have?
- a. Capitalism
  - b. Communism
  - c. Socialism
  - d. Mixed economy

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

54. The conversion of Social Security from government-owned and operated into privately held businesses would be accomplished through \_\_\_\_\_.  
a. Deregulation  
b. pure competition  
c. regulated monopolies  
d. Privatization

ANS: D

DIF: 2

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Reflective Thinking

MSC: AP

55. During an economic recovery, consumer spending \_\_\_\_\_ and unemployment \_\_\_\_\_.  
a. increases; increases  
b. increases; decreases  
c. decreases; increases  
d. decreases; decreases

ANS: B

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

56. The rise in popularity of selling personal goods on eBay demonstrates the business cycle of \_\_\_\_\_.  
a. Recession  
b. Recovery  
c. Prosperity  
d. Depression

ANS: A

DIF: 3

REF: Evaluating Economic Performance

NAT: AACSB Reflective Thinking

MSC: AP

57. \_\_\_\_\_ is the relationship between the goods and services produced in a nation each year and workers, raw materials, and other inputs necessary to produce them.  
a. GDP (Gross Domestic Product)  
b. Per capita income  
c. Prosperity  
d. Productivity

ANS: D

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

58. Many of the gains in U.S. productivity can be attributed to \_\_\_\_\_.  
a. Deflation  
b. budget surplus  
c. a steady Consumer Price Index  
d. Technology

ANS: D

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Technology

MSC: KN

59. \_\_\_\_\_ is a commonly used measure of productivity.  
a. GDP (Gross Domestic Product)  
b. Prosperity  
c. The business cycle  
d. The average wage

ANS: A

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

60. The sum of all goods and services produced within a nation's boundaries each year is the \_\_\_\_\_.  
a. Gross National Index  
b. Producer Price Index  
c. Global Market Indicator  
d. Gross Domestic Product

ANS: D                      DIF: 3  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

61. \_\_\_\_\_ is caused by increases in the prices of raw materials and other factors of production.  
a. The Consumer Price Index (CPI)  
b. Demand-pull inflation  
c. Cost-push inflation  
d. A recession

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

62. Assume that the number of people wanting to buy homes increases sharply in your local area. The price of homes will likely \_\_\_\_\_, which is an example of \_\_\_\_\_.  
a. increase; cost-push inflation  
b. decrease; cost-push inflation  
c. increase; demand-pull inflation  
d. decrease; demand-pull inflation

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Evaluating Economic Performance  
MSC: AP

63. \_\_\_\_\_ provides a running measure of consumer price changes.  
a. The Consumer Price Index (CPI)  
b. Devaluation  
c. Per capita income  
d. The Producer Price Index (PPI)

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

64. Economists refer to a nation's \_\_\_\_\_ as an indicator of its economic health.  
a. gross domestic product (GDP)  
b. inflation rate  
c. recession rate  
d. unemployment rate

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

65. The four types of unemployment are \_\_\_\_\_.  
a. recessional, inflation, frictional, and cyclical  
b. inflation, frictional, cyclical, and structural  
c. recessional, frictional, cyclical, and structural  
d. frictional, cyclical, structural, and seasonal

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

66. Kim graduated from college in May and is looking for a job. She is \_\_\_\_\_ unemployed.
- a. Structurally
  - b. Cyclically
  - c. Seasonally
  - d. Frictionally

ANS: D

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

67. Lucy worked as a manager at a phone company that recently experienced a number of layoffs due to an economic slow time. Lucy's employment would be described as \_\_\_\_\_.
- a. Structural
  - b. Cyclical
  - c. Frictional
  - d. Seasonal

ANS: B

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Reflective Thinking

MSC: AP

68. Which type of unemployment typically lasts the longest?
- a. Structural
  - b. Cyclical
  - c. Seasonal
  - d. Frictional

ANS: A

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

69. Monetary policy \_\_\_\_\_.
- a. uses interest rate variations and availability of funds to influence the nation's economy
  - b. is of limited use in controlling inflation
  - c. is of little use in expanding business spending
  - d. frequently causes taxes to rise

ANS: A

DIF: 2

REF: Managing the Economy's Performance

NAT: AACSB Analytic

MSC: KN

70. The part of the federal government responsible for monetary policy is \_\_\_\_\_.
- a. the Federal Reserve System
  - b. Congress
  - c. the U.S. Treasury
  - d. the President

ANS: A

DIF: 1

REF: Managing the Economy's Performance

NAT: AACSB Analytic

MSC: KN

71. Business borrowing becomes easier when \_\_\_\_\_.
- a. the federal government increases spending
  - b. the federal government decreases spending
  - c. the Federal Reserve increases the money supply
  - d. the Federal Reserve decreases the money supply

ANS: C

DIF: 3

REF: Managing the Economy's Performance

NAT: AACSB Reflective Thinking

MSC: AP

72. Assume that the Federal Reserve slows the growth in the money supply. As a result, inflation will \_\_\_\_\_ and interest rates will \_\_\_\_\_.
- a. fall; rise
  - b. fall; fall
  - c. rise; fall
  - d. rise; rise

ANS: A                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

73. Two major policy tools are available for controlling economic activity. They are \_\_\_\_\_.
- a. tax and spending policies
  - b. monetary and fiscal policies
  - c. interest rate and credit policies
  - d. interest rate and taxing policies

ANS: B                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

74. The Federal Reserve increases the amount of money banks can lend. As a result, interest rates will \_\_\_\_\_ and economic growth will \_\_\_\_\_.
- a. increase; increase
  - b. fall; fall
  - c. fall; increase
  - d. increase; fall

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

75. Fiscal policy \_\_\_\_\_.
- a. reduces the money supply
  - b. increases the money supply
  - c. always results in increasing the national debt
  - d. can be used to increase economic activity

ANS: D                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

76. By changing \_\_\_\_\_, the Federal Reserve can expand or shrink funds available to lend.
- a. taxes
  - b. spending
  - c. fees charged on household and business checking and savings accounts
  - d. interest rates

ANS: D                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

77. Concerning a balanced budget, all of the following statements are correct EXCEPT:
- a. A balanced budget does not mean an end to the federal debt.
  - b. The federal government has rarely balanced its budget during the last 50 years.
  - c. Balanced budgets will result in lower interest rates to all private borrowers.
  - d. A balanced budget is achieved when all tax receipts equal all spending in a particular year.

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

78. The Federal Reserve slows the growth in the supply of money and credit. Interest rates will likely \_\_\_\_\_, which is an example of \_\_\_\_\_ policy.
- a. rise; fiscal
  - b. fall; fiscal
  - c. rise; monetary
  - d. fall; monetary

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

79. The federal government raises corporate income taxes in order to reduce the budget deficit. This change will likely \_\_\_\_\_ economic activity, which is an example of \_\_\_\_\_ policy.
- a. decrease; monetary
  - b. increase; monetary
  - c. increase; fiscal
  - d. decrease; fiscal

ANS: D                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

80. A balanced budget will occur when \_\_\_\_\_.
- a. all of the national debt is repaid
  - b. taxes, fees, and borrowings are equal to government spending for the year
  - c. taxes and fees equal all government spending except for capital expenditures
  - d. all federal taxes and fees equal all federal government spending

ANS: B                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

81. All of the following are key challenges facing business in the new century EXCEPT \_\_\_\_\_.
- a. the shift toward a global information economy
  - b. the aging of the workforce
  - c. the surplus of college graduates
  - d. growth of India and China

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

82. The U.S. population is \_\_\_\_\_.
- a. getting older
  - b. less diverse than it was 30 years ago
  - c. declining
  - d. expanding too rapidly

ANS: A                      DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

83. Which of the following is not a source of government funds to cover the annual budget?
- a. taxes
  - b. fees
  - c. borrowing
  - d. monetary policy

ANS: D                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

84. Which of the following does not make up part of the national debt?

- a. Taxes
- b. treasury bills
- c. treasury notes
- d. treasury bonds

ANS: A                      DIF: 1  
NAT: AACSB Analytic

REF: Managing the Economy's Performance  
MSC: KN

### TRUE/FALSE

1. Economics deals only with the allocation of abundant resources by business.

ANS: F                      DIF: 1  
NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and Supply  
MSC: KN

2. Decisions made by individuals and businesses have little impact on overall economic conditions.

ANS: F                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and Supply  
MSC: AP

3. Changes in overall government spending have a macroeconomic effect.

ANS: T                      DIF: 1  
NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and Supply  
MSC: KN

4. Macroeconomics deals with taxing and spending decisions made by governments.

ANS: T                      DIF: 1  
NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and Supply  
MSC: KN

5. Not-for-profit organizations must make economic decisions.

ANS: T                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and Supply  
MSC: AP

6. When a manager tries to predict prices and amounts that will be sold, he or she is dealing with microeconomics.

ANS: T                      DIF: 1  
NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and Supply  
MSC: AP

7. Microeconomics and macroeconomics are interrelated.

ANS: T                      DIF: 1  
NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and Supply  
MSC: KN

8. Supply refers to buyers' willingness and ability to purchase goods and services.



ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

9. Typically, the higher the price, the larger the quantity offered for sale.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

10. The graph showing the relationship between different prices and quantity offered for sale at each price is called a demand curve.

ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

11. Assume that incomes rise. In this instance, the demand curve for homes is likely to shift upward and to the left.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

12. The price of gasoline rises sharply. One likely outcome is that the demand curve for large SUVs should shift downward and to the left while the demand curve for small, fuel-efficient cars should shift up and to the right.

ANS: T                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

13. If demand for a product rises sharply, its price should decline and the quantity supplied should increase.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

14. If buyers' incomes increase, the demand curve for most products will shift to the left.

ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

15. Assume electric water heaters and gas water heaters are interchangeable, and assume the price of natural gas rises sharply relative to the price of electricity. The demand curve for gas water heaters should shift to the left.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

16. The price of producing an item declines due to improved technology. The supply curve should shift to the left.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
17. A typical demand curve slopes downward, which reflects that lower and lower prices attract larger and larger amounts purchased.
- ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
18. If the number of suppliers of a particular product increases, so should the quantity supplied, and the price should fall.
- ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
19. Assume the number of new home buyers suddenly increases. The demand curve for homes will likely shift upward and to the right.
- ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
20. Entrepreneurship is a philosophy of business, not a factor of production.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
21. Forces of nature, such as a hurricane, can affect the supply curve.
- ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
22. A long-term tax on a product is eliminated. The supply curve should shift upward and to the right, and the price of that product will typically rise.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
23. When the supply curve shifts to the left and the demand curve remains unchanged, the price for the product or service will fall.
- ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

24. The equilibrium price occurs at the point of intersection between the supply and demand curves.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

25. In order to control the rising price of housing, the city council enacts rent controls. This mandated price is below the equilibrium price. Consequently, a shortage of housing may result.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

26. If the equilibrium price is below the market price, a shortage of a good or service will likely result.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

27. A shortage will occur if the market price is below the equilibrium price.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

28. Equilibrium price refers to the intersection of the supply and demand curves.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

29. The cost of the raw materials used to produce a product falls. The supply curve will likely shift down and to the left.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: AP

30. Capitalism is also referred to as a public enterprise system.

ANS: F                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

31. Under a capitalistic system, the government tends to favor a "hands-off" attitude towards controlling business.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

32. No two countries have exactly the same economic system.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

33. Under pure competition, no single producer has a significant amount of control over price.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

34. Since there are numerous manufacturers of pet food, the product is sold in the pure competition market.

ANS: F                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

35. Monopolistic competition differs from pure competition because sellers have some control over prices.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

36. An oligopoly is a market situation where there are only a few producers.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

37. One example of an industry with high entry barriers is the airline industry.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

38. Giant computer companies, such as Apple and Sony, are engaged in oligopoly competition.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

39. Regulated monopolies are legal in the United States.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

40. Natural monopolies are often industries with high entry barriers.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

41. In most of the U.S., electric utilities operate as regulated monopolies.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Most communist systems allow some private ownership of less critical industries.

ANS: F                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

43. In recent years, China has been moving from communism toward a more market-oriented economy.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

44. Socialism is one of the four market structures found in a private enterprise system.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

45. Under socialism, there is no private property.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

46. The government of one country owns the railroads, utilities, energy companies, and financial institutions. Ownership of small businesses is in private hands. This is an example of socialism.

ANS: T

DIF: 2

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Reflective Thinking

MSC: AP

47. A country with a "mixed economy" is a combination of the private enterprise system and a planned economy.

ANS: T

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

48. In a mixed economy, public enterprises are expected to lose money.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

49. In a mixed economy, private firms never compete with public enterprises.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

50. The United States has experienced several economic depressions since the 1930s.

ANS: F

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

51. Wild price fluctuations are considered to be inevitable in countries experiencing rapid economic growth.

ANS: F

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

52. Growth leads to expanded job opportunities, improved wages, and an increased standard of living.

ANS: T

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

53. Rising unemployment and slowing inflation may indicate that the economy is headed into a recession.

ANS: T

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Reflective Thinking

MSC: AP

54. In the recovery stage of the business cycle, the economy emerges from recession.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

55. During a recession, business spending falls but consumer spending remains relatively unchanged.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

56. Increased purchases of discretionary items, such as cars and vacations, only appear during prosperity. Consumers are still wary of high purchases in the recovery stage.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

57. If productivity rises, profits and wages can rise without inflation.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

58. Gross domestic product (GDP) is the sum of all goods and services produced within a nation's boundaries each year.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

59. The core inflation rate includes the prices of all goods and services.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

60. Inflation benefits borrowers with fixed-rate loans, such as most homeowners.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

61. Since energy and food prices fluctuate excessively from month to month, the Consumer Price Index (CPI) excludes these two variables.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

62. Deflation is ideal for consumers and can only strengthen a nation's economy.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

63. Cyclical unemployment is when the economy slows down and mid-managers, for example, are laid off.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

64. During recessions, both cyclical and seasonal unemployment rise.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

65. Andrew has a construction job in the Boston area. During winter, he is cyclically unemployed and looks for other work until the spring.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

66. Those who lose their jobs due to structural reasons will generally be unemployed the longest.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

67. Restrictive monetary policy reduces the money supply and helps to reduce inflation.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

68. When the Federal Reserve pushes up interest rates, inflation should rise because it will cost more to borrow money.

ANS: F                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

69. In the United States, monetary policy is largely controlled by the Federal Reserve.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

70. Assume that the Federal Reserve uses its available tools to push down interest rates. Economic activity should increase as a result.

ANS: T                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

71. Fiscal policy is used primarily to increase or decrease interest rates.

ANS: F                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

72. Lowering taxes is an example of fiscal policy.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

73. Fiscal policy is used to increase or decrease the money supply, as well as change banking requirements and interest rates.

ANS: F                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

74. The Federal Reserve can implement both expansionary and restrictive monetary policies.

ANS: T                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

75. Assume that the federal government raises taxes in order to balance its budget. By itself, this action will tend to slow the rate of economic growth.

ANS: T                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

76. One of the 21st century's major economic challenges is dealing with a surplus of workers.

ANS: F                      DIF: 1                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

77. During the next two decades, a smaller percentage of older workers will reduce demands on employees for worker disability, retirement, and insurance.

ANS: F                      DIF: 1                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

78. As technological communication expands, customer service will become less important in the global economy.

ANS: F                      DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Reflective Thinking                      MSC: AP

79. Rising gas prices due to the fact that it is more expensive to access the remaining oil reserves in the ground is an example of cost-push inflation.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP



## Chapter 4—Competing in Global Markets

### MATCHING

*Complete the following using the terms listed.*

- a. exporting
- b. balance of trade
- c. joint venture
- d. dumping
- e. imports
- f. tariff
- g. International Monetary Fund
- h. subcontracting
- i. free trade area
- j. devaluation
- k. exchange rate
- l. absolute advantage
- m. global strategy
- n. quota
- o. multidomestic strategy
- p. balance of payments
- q. comparative advantage

1. \_\_\_\_\_ describes the fall of currency's value relative to other currencies.
2. A nation's \_\_\_\_\_ is the rate at which currency can be exchanged for the currency of another nation.
3. A(n) \_\_\_\_\_ is a tax levied on imported products.
4. Within a(n) \_\_\_\_\_, participating countries impose no tariff on goods imported from member countries.
5. \_\_\_\_\_ refers to selling goods abroad at a price lower than that charged in the domestic market.
6. \_\_\_\_\_ are foreign-made products and services purchased by domestic consumers.
7. A country has \_\_\_\_\_ in the marketing of a product if it has a monopolistic position or it produces the product at the lowest cost.
8. \_\_\_\_\_ occurs when a foreign company hires local companies to produce, distribute, or sell goods and services.
9. Selling U.S. soybeans to Japan is an example of U.S. \_\_\_\_\_.
10. A(n) \_\_\_\_\_ allows a company to share risks, costs, profits, and management responsibilities with another company.
11. A(n) \_\_\_\_\_ uses a standardized product and marketing strategy worldwide.
12. The \_\_\_\_\_ was created to promote trade through financial cooperation, while eliminating barriers in the process.
13. A country's \_\_\_\_\_ is the difference between its exports and imports.
14. A(n) \_\_\_\_\_ develops and markets products to serve different needs and tastes of separate national markets.
15. A nation can have a(n) \_\_\_\_\_ in a product if it can supply it more efficiently and at a lower price.
16. A country's \_\_\_\_\_ is the overall flow of money into and out of a country.
17. A limit on the amount of a particular product that a country can import during a specified time period is a(n) \_\_\_\_\_.

1. ANS: J                      DIF: 2  
NAT: AACSB Analytic
2. ANS: K                      DIF: 2  
NAT: AACSB Analytic

- REF: Measuring Trade Between Nations  
MSC: KN  
REF: Measuring Trade Between Nations  
MSC: KN

3.	ANS: F	DIF: 2	REF: Barriers to International Trade
	NAT: AACSB Analytic		MSC: KN
4.	ANS: I	DIF: 2	REF: Reducing Barriers to International Trade
	NAT: AACSB Analytic		MSC: KN
5.	ANS: D	DIF: 2	REF: Barriers to International Trade
	NAT: AACSB Analytic		MSC: KN
6.	ANS: E	DIF: 2	REF: Chapter Overview
	NAT: AACSB Analytic		MSC: KN
7.	ANS: L	DIF: 2	REF: Why Nations Trade
	NAT: AACSB Analytic		MSC: KN
8.	ANS: H	DIF: 2	REF: Going Global
	NAT: AACSB Analytic		MSC: KN
9.	ANS: A	DIF: 2	REF: Why Nations Trade
	NAT: AACSB Analytic		MSC: KN
10.	ANS: C	DIF: 2	REF: Going Global
	NAT: AACSB Analytic		MSC: KN
11.	ANS: M	DIF: 2	REF: Developing a Strategy for International Business
	NAT: AACSB Analytic		MSC: KN
12.	ANS: G	DIF: 2	REF: Reducing Barriers to International Trade
	NAT: AACSB Analytic		MSC: KN
13.	ANS: B	DIF: 2	REF: Measuring Trade between Nations
	NAT: AACSB Analytic		MSC: KN
14.	ANS: O	DIF: 2	REF: Developing a Strategy for International Business
	NAT: AACSB Analytic		MSC: KN
15.	ANS: Q	DIF: 2	REF: Why Nations Trade
	NAT: AACSB Analytic		MSC: KN
16.	ANS: P	DIF: 2	REF: Measuring Trade between Nations
	NAT: AACSB Analytic		MSC: KN
17.	ANS: N	DIF: 2	REF: Barriers to International Trade
	NAT: AACSB Analytic		MSC: KN

## ESSAY

1. Why have U.S. firms become increasingly focused on international business?

ANS:

In the past, most American firms felt that the huge U.S. domestic market was all they needed. Today, the domestic market is open to foreign firms, and American consumers seem to favor imported goods over domestic goods in many markets. On the other side, many American firms have found that foreign markets represent a major opportunity for expanding their markets. Many well-known American firms derive more than half their sales and/or profits from foreign markets. Another benefit of these expanded markets is the possibility of enjoying economies of scale in production and marketing.

DIF: 3  
MSC: AP

REF: Why Nations Trade

NAT: AACSB Reflective Thinking

2. What economic factors do firms evaluate when making decisions to operate in other countries?

ANS:

Business decisions to operate abroad depend on the availability, price, and quality of labor, natural resources, capital, and entrepreneurship. Other factors include the country's regulatory and business climate. A country with a large population and rising incomes may be especially attractive.

DIF: 2  
MSC: AP

REF: Why Nations Trade

NAT: AACSB Reflective Thinking

3. Distinguish between absolute advantage and comparative advantage.

ANS:

Absolute advantage is when a country makes a product for which it can maintain a monopoly or produce the product at a lower cost than any competitor. Comparative advantage occurs when a country can supply a product more efficiently and at a lower price than it can supply other goods, compared with the outputs of other countries.

DIF: 2  
MSC: KN

REF: Why Nations Trade

NAT: AACSB Analytic

4. International exchange rates are based on a system called floating exchange rates. What does this mean? Do currencies float freely?

ANS:

Currency traders create a market for the world's currencies based on the country's trade and investment prospects. In theory, this means that exchange rates are free to fluctuate or "float" according to supply and demand. In practice, countries intervene to adjust their own exchange rates. Finally, some countries practice protectionist policies to include currency trade barriers.

DIF: 3  
MSC: AP

REF: Measuring Trade between Nations

NAT: AACSB Reflective Thinking

5. Suppose the U.S. dollar is getting stronger relative to the euro. Who benefits? Who is disadvantaged?

ANS:

If the dollar is getting stronger relative to the euro, it means that one dollar can be converted into more euros. For example, if one dollar could be converted into one euro a month ago, while today one dollar can be converted into 1.10 euros, then the dollar has gotten stronger relative to the euro. Generally, anyone who wants to convert dollars into euros wants a strong dollar. This would include U.S. travelers to Europe, American firms with European operations, and European exporters. On the other hand, those who have to convert euros into dollars are hurt. American exporters can also be hurt because a strong dollar makes U.S. goods more expensive to Europeans.

PTS: 1  
MSC: AP

REF: Measuring Trade between Nations

NAT: AACSB Reflective Thinking

6. Identify and describe the major types of obstacles confronting global businesses.

ANS:

The major types of obstacles confronting global businesses are cultural barriers, physical barriers, and tariffs and other trade restrictions. Cultural barriers refer to differences in language, religion, social values, and buying habits that make it difficult for firms from one nation to succeed in another country. For example, business practices considered acceptable in the United States are often considered rude or inappropriate by businesspeople in other nations. Physical barriers refer to difficulties associated with location, distance, terrain, and transportation. Tariffs are taxes on goods imported into a nation. While some tariffs are levied for the purpose of raising revenue, most are protective -- they are designed to increase the price of foreign goods and place them at a competitive disadvantage. Other trade restrictions include quotas (numerical limits on the amount of a good that can be imported), and exchange controls (which require firms to buy and sell foreign exchange only through a nation's central bank or some other designated agency).

DIF: 3                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

7. What is a tariff? What are the purposes of the two categories of tariffs that a government would impose?

ANS:

A tariff is a tax, surcharge, or duty on foreign products. There are two general purposes of tariffs. Revenue tariffs are merely designed to raise revenue for the government. Protective tariffs are designed to raise the prices of imported products so that they match or exceed the price of domestically produced products. They are designed to protect domestic producers from foreign imports by putting imported goods at a competitive disadvantage.

DIF: 3                      REF: Barriers to International Trade                      NAT: AACSB Reflective Thinking  
MSC: AP

8. What is dumping? How do countries counteract this practice?

ANS:

One form of dumping is selling a product in another country for less than the cost of production. In another category of dumping, a company exports a large quantity of a product at a lower price than the same product in the home market and drives down the price of the domestic product. Countries often impose quotas to counteract dumping.

DIF: 2                      REF: Barriers to International Trade                      NAT: AACSB Analytic  
MSC: KN

9. Discuss why the World Trade Organization (WTO) has been the object of controversy in recent years. What concerns have been expressed?

ANS:

Critics charge that the WTO's focus on lowering trade barriers encourages businesses to keep costs down through practices that may increase pollution and human rights abuses. Member countries must agree on policies, and developing countries tend not to be eager to lose their low-cost advantage by enacting stricter labor and environmental laws. Additionally, critics claim that larger corporations might eliminate smaller foreign businesses serving the distinct tastes and practices of their cultures.

DIF: 3                      REF: Reducing Barriers to International Trade                      NAT: AACSB Reflective Thinking  
MSC: AP

10. Explain the differences between the World Bank and the International Monetary Fund.

ANS:

The World Bank was formed to lend money to less-developed and developing nations. The World Bank primarily funds projects that build or expand nations' infrastructures such as transportation, education, and medical systems and facilities. The International Monetary Fund (IMF) was created to promote trade through financial cooperation. The IMF makes short-term loans to member nations that are unable to meet their budgetary requirements and operates as a lender of last resort for troubled nations.

DIF: 3                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

11. Discuss the advantages of the North American Free Trade Agreement (NAFTA).

ANS:

NAFTA eliminates all trade barriers and investment restrictions between Canada, Mexico, and the United States. The act opens up a market of 450 million people and a total Gross Domestic Product of \$15 trillion. It makes it easier for small businesses to operate in all three countries by simplifying shipments of goods across borders.

DIF: 2                      REF: Reducing Barriers to International Trade      NAT: AACSB Analytic  
MSC: KN

12. Before a business decides to go global, the company faces a number of important decisions. Identify the first three.

ANS:

The first three decisions are determining which foreign markets to enter, analyzing the expenditures required to enter a new market, and deciding on the best way to organize an overseas operation.

DIF: 2                      REF: Going Global  
NAT: AACSB Analytic                      MSC: KN

13. Discuss the various levels of involvement in international business.

ANS:

Indirect exporting is a situation in which a firm's goods are sold abroad but the firm itself is not engaged in exporting. Direct exporting calls for a company commitment of capital and managerial effort to enter the export market. Under foreign licensing, a firm enters into a contract with a company in a foreign nation to produce an item in the foreign nation. Overseas marketing involves a firm's setting up a foreign sales office. International production exists when a firm starts or acquires both a foreign manufacturing organization and a foreign organization.

DIF: 3                      REF: Going Global  
NAT: AACSB Reflective Thinking                      MSC: AP

14. Define countertrade, and explain why this form of international trade is a viable option for certain nations.

ANS:

Countertrade is an international bartering system that involves payments made in the form of local products instead of currency. Countertrade may be necessary for certain countries when there is inadequate access to needed foreign currency. For developing countries, countertrade may be the only opportunity to enter a particular market, and countries with heavy debt also resort to countertrade. Other countries, such as Russia, have less acceptable currency in the market, and may use countertrade. Finally, countries that restrict imports may need countertrade to win government approval for import-needed products.

DIF: 2                      REF: Going Global  
NAT: AACSB Reflective Thinking                      MSC: AP

15. Describe three contractual agreements firms can enter into when going global.

ANS:

The three contractual agreements are: franchising, foreign licensing, and subcontracting. Franchising is a contractual agreement in which the franchisee gains the right to sell the franchisor's products under that company's brand name under operating agreements. In foreign licensing, one firm allows another to produce or sell its product, or use its trademark, patent, or manufacturing process in a specific geographical area. Subcontracting involves hiring companies to produce, distribute or sell goods and services.

DIF: 2                      REF: Going Global  
NAT: AACSB Analytic                      MSC: KN

16. Distinguish between a global strategy and a multidomestic strategy for marketing goods in other nations.

ANS:

A firm that follows a global strategy uses a standardized product and marketing strategy worldwide. In other words, the same product is sold in essentially the same manner with only slight adjustments for differences in language and culture, in different nations. In a multidomestic approach, each national market is treated differently. The firm will develop products and strategies specifically geared to the tastes, lifestyles, and buying habits of particular national markets.

DIF: 2                      REF: Developing a Strategy for International Business  
NAT: AACSB Analytic                      MSC: KN

17. Jorge owns a men's watch company and is looking to market his product overseas. Should he use a global business or multidomestic strategy?

ANS:

A global business strategy would be best since jewelry has universal appeal and benefits from promoting a product with a worldwide, standard approach. Additionally, it would be extremely costly to tailor his promotional materials to each national market.

DIF: 2                      REF: Developing a Strategy for International Business  
NAT: AACSB Analytic                      MSC: AP

## **MULTIPLE CHOICE**

1. Computers that are manufactured in the United States and sold in Norway are categorized as U.S. \_\_\_\_\_.
- a. imports

- b. exports
- c. countertrades
- d. outsourcing

ANS: B                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

2. During the past decade, the value of both U.S. imports and exports has \_\_\_\_\_.
- a. decreased
  - b. remained about the same
  - c. more than doubled
  - d. risen slightly

ANS: C                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

3. AusterTech, a U.S. company, produces computer parts and sells them to South American countries. AusterTech is engaging in the international business activity known as \_\_\_\_\_.
- a. dumping
  - b. exporting
  - c. countertrade
  - d. importing

ANS: B                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

4. Los Angeles-based PMI Telecom purchases cell phones manufactured in Asia and sells them in the U.S. PMI is engaging in the international business activity known as \_\_\_\_\_.
- a. dumping
  - b. exporting
  - c. countertrade
  - d. importing

ANS: D                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

5. A large part of the U.S. economy's growth comes from \_\_\_\_\_.
- a. petroleum exports
  - b. computer technology
  - c. the export and import of goods and services
  - d. production of consumer electronic products

ANS: C                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

6. When a company operates in other countries, it \_\_\_\_\_ risk.
- a. spreads out
  - b. increases
  - c. eliminates
  - d. has no impact on

ANS: A                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

7. Many developing nations have lower per capita incomes than highly developed countries. This fact \_\_\_\_\_.

- a. indicates that they represent an insignificant market for most products
- b. means that the developing nations are unlikely to experience much economic growth
- c. does not mean there is little opportunity for sales
- d. means that they are only likely to purchase low-tech merchandise

ANS: C                      DIF: 3                      REF: Why Nations Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

8. Many developing countries have had \_\_\_\_\_ rates of GDP growth compared with the United States and other developed countries.
- a. higher
  - b. lower
  - c. similar
  - d. negative

ANS: A                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

9. All of the following are included in the top five nations the U.S. trades with EXCEPT \_\_\_\_\_.
- a. Spain
  - b. Japan
  - c. Federal Republic of Germany
  - d. Mexico

ANS: A                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

10. Over the past decade, which of the following countries had the highest annual rate of GDP growth?
- a. United States
  - b. China
  - c. Canada
  - d. Japan

ANS: B                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

11. Which of the following countries ranks high in terms of *both* population and wealth?
- a. United States
  - b. Japan
  - c. Germany
  - d. France

ANS: A                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

12. Which state is considered the largest exporter to foreign trade?
- a. New York
  - b. California
  - c. Illinois
  - d. Texas

ANS: D                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

13. For years, China had an absolute advantage in the production of \_\_\_\_\_.
- a. rice



- b. tea
- c. silk
- d. clothing

ANS: C                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

14. An absolute advantage occurs when a country can maintain \_\_\_\_\_.  
 a. a monopoly by outlawing foreign imports  
 b. a monopoly by levying high taxes on imports  
 c. a monopoly by being the lowest-cost producer  
 d. its advantage by producing a product more efficiently

ANS: C                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

15. One way for a country to obtain an absolute advantage in marketing a product outside its borders is to \_\_\_\_\_.  
 a. enter into an orderly marketing agreement  
 b. adopt many trade restrictions  
 c. revalue the currency  
 d. produce the good at the lowest cost

ANS: D                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

16. The hypothetical country Uzambia is the sole world supplier of Boronite. Uzambia has \_\_\_\_\_.  
 a. a floating exchange rate  
 b. an absolute advantage in marketing the item  
 c. a favorable balance of trade  
 d. a comparative advantage in marketing the item

ANS: B                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

17. Examples of absolute advantage \_\_\_\_\_.  
 a. are found mostly in developing countries  
 b. are rare  
 c. exist whenever a country has low labor rates  
 d. exist in every country

ANS: B                      DIF: 1                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

18. A comparative advantage in a good or service means that \_\_\_\_\_.  
 a. compared to another country, a nation can produce it more cheaply  
 b. the nation with the comparative advantage has a monopoly on the good or service  
 c. a nation must be the absolute best at producing something  
 d. compared to another good or service, a nation will produce the one that it produces most efficiently

ANS: D                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

19. India has acquired a(n) \_\_\_\_\_ in software development with its educated workforce and low wage scale.

- a. comparative advantage
- b. absolute advantage
- c. balance of trade
- d. favorable exchange rate

ANS: A                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Analytic                      MSC: KN

20. Engineers in the hypothetical country of Uzambia develop a revolutionary new technique that reduces the cost of making steel by 75 percent. Uzambia has \_\_\_\_\_.
- a. a floating exchange rate
  - b. an absolute advantage in marketing the item
  - c. a favorable balance of trade
  - d. a comparative advantage in marketing the item

ANS: D                      DIF: 2                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

21. The country Artesia exported products totaling \$86 billion last year. During the year, Artesia imported products valued at \$43 billion. Artesia has a(n) \_\_\_\_\_.
- a. exchange rate of 2 to 1
  - b. Trade deficit of \$43 billion
  - c. Trade surplus of \$43 billion
  - d. unfavorable balance of payments

ANS: C                      DIF: 3                      REF: Why Nations Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

22. A trade deficit occurs when \_\_\_\_\_.
- a. imports exceed exports
  - b. foreign-aid payments exceed exports
  - c. imports are sold at low profits
  - d. there is a net flow of money into a country

ANS: A                      DIF: 2                      REF: Measuring Trade between Nations  
 NAT: AACSB Analytic                      MSC: KN

23. At the end of the year, a small country with limited resources found that the amount of imports required to meet its needs that year was almost \$11 billion more than the amount of domestically produced goods it was able to sell abroad. This country had experienced a(n) \_\_\_\_\_.
- a. favorable balance of payments
  - b. trade surplus
  - c. successful attempt at self-sufficiency
  - d. unfavorable balance of trade

ANS: D                      DIF: 3                      REF: Measuring Trade between Nations  
 NAT: AACSB Reflective Thinking                      MSC: AP

24. Which of the following is the highest U.S. export?
- a. Natural gas
  - b. Clothing
  - c. Electrical machinery
  - d. Automobiles

ANS: C                      DIF: 2                      REF: Measuring Trade between Nations  
 NAT: AACSB Analytic                      MSC: KN

25. A balance of payments surplus means \_\_\_\_\_.

- a. an overall inflow of money from abroad
- b. an overall outflow of money to other countries
- c. that imports exceed exports
- d. that exports exceed imports

ANS: A

DIF: 2

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

26. A balance of payments deficit occurs when \_\_\_\_\_.

- a. imports exceed exports
- b. the net inflow of money from abroad exceeds the net outflows of money to other countries
- c. exports exceed imports
- d. the net outflow of money from a country exceeds the net inflow of money from abroad

ANS: D

DIF: 2

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

27. Allison, a U.S. citizen, travels to Europe and spends \$2,000 on souvenirs. She is contributing to the \_\_\_\_\_.

- a. U.S. trade surplus
- b. U.S. balance of payments deficit
- c. international trade war
- d. growing exchange rate

ANS: B

DIF: 2

REF: Measuring Trade between Nations

NAT: AACSB Reflective Thinking

MSC: AP

28. A Japanese insurance company purchases U.S. government securities. From the perspective of the United States, the balance of trade with Japan will \_\_\_\_\_ and the balance of payments with Japan will \_\_\_\_\_.

- a. not change; improve
- b. not change; get worse
- c. improve; improve
- d. improve; get worse

ANS: A

DIF: 3

REF: Measuring Trade between Nations

NAT: AACSB Reflective Thinking

MSC: AP

29. A country's exchange rate is based on \_\_\_\_\_.

- a. the rate at which its currency can be exchanged for other currencies
- b. the number of foreign banks it has
- c. tariffs and related trade restrictions
- d. the relationship between its imports and exports

ANS: A

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

30. Which of the following groups is likely to be hurt economically if the value of the U.S. dollar rises relative to the euro?

- a. American tourists visiting Europe
- b. European firms exporting goods to the U.S
- c. American farmers exporting goods to Europe
- d. American firms with euro dominated loans

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Measuring Trade between Nations  
MSC: AP

31. A country has a good chance of selling more of its goods abroad if it \_\_\_\_\_.  
a. re-evaluates its currency  
b. sends more tourists abroad  
c. devalues its currency  
d. sets high tariffs on imported goods

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Measuring Trade between Nations  
MSC: AP

32. Which of the following would result from devaluation of the U.S. dollar?  
a. U.S. goods would sell for less abroad.  
b. The cost of foreign vacations for U.S. citizens would be reduced.  
c. Foreign firms would have to pay more to purchase U.S. assets.  
d. Foreign goods would be less expensive for American consumers.

ANS: A                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Measuring Trade between Nations  
MSC: AP

33. In recent years, the value of the dollar has \_\_\_\_\_ relative to the euro.  
a. risen slightly  
b. remained the same  
c. risen substantially  
d. fallen

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Measuring Trade between Nations  
MSC: KN

34. Assume a nation has a comparative advantage in the production of clothing. If the value of this country's currency rises, \_\_\_\_\_.  
a. its comparative advantage will increase  
b. its comparative advantage will stay the same  
c. its comparative advantage will decrease  
d. an absolute advantage will be created

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Measuring Trade between Nations  
MSC: AP

35. All of the following are considered to be hard currencies EXCEPT the \_\_\_\_\_.  
a. U.S. dollar  
b. Russian ruble  
c. Japanese yen  
d. Euro

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Measuring Trade between Nations  
MSC: KN

36. Management styles and ways of managing workers may need to be modified in other parts of the world in order to overcome \_\_\_\_\_ barriers.  
a. physical  
b. cultural  
c. political  
d. legal

ANS: B                      DIF: 2  
NAT: AACSB Communication

REF: Barriers to International Trade  
MSC: AP

37. Goto, Inc. is trying to establish a supplier relationship with a parts manufacturer in a small Asian country. Filipe, the purchasing manager, is attempting to get to know the General Manager and staff of the company to help finalize the agreement. Filipe is attempting to overcome what type of barrier?
- a. Physical barrier
  - b. Tariff restriction
  - c. Exchange controls
  - d. Cultural barrier

ANS: D                      DIF: 2  
NAT: AACSB Communication

REF: Barriers to International Trade  
MSC: AP

38. All of the following are social and cultural barriers EXCEPT \_\_\_\_\_.
- a. language
  - b. gift-giving traditions
  - c. religious attitudes
  - d. currency shifts

ANS: D                      DIF: 1  
NAT: AACSB Communication

REF: Barriers to International Trade  
MSC: KN

39. Maria is the Middle Eastern sales manager for a large company. She avoids giving pork products and wine to Arab customers as gifts. Maria is being sensitive to \_\_\_\_\_.
- a. religious differences
  - b. language differences
  - c. differences in consumer habits
  - d. differences in business practices

ANS: A                      DIF: 2  
NAT: AACSB Communication

REF: Barriers to International Trade  
MSC: AP

40. All of the following constitute a country's infrastructure EXCEPT \_\_\_\_\_.
- a. housing
  - b. communication
  - c. energy facilities
  - d. transportation

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Barriers to International Trade  
MSC: KN

41. The hypothetical country of Eurica is experiencing severe competition to its domestic auto industry in the form of foreign imports. Many jobs are threatened. Eurica places a 25 percent tariff on the price of imported cars. This type of tariff is known as a(n) \_\_\_\_\_ tariff.
- a. revenue
  - b. quota
  - c. infant industry
  - d. protective

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Barriers to International Trade  
MSC: AP

42. The U.S. textile industry faces stiff competition from some Pacific Rim countries where low labor costs allow some textiles to be priced lower than those made in the U.S. What action could the U.S. government take to raise the price of the imports to the level of American-made textiles?
- a. Reduce all tariffs and trade restrictions
  - b. Impose a protective tariff
  - c. Place an embargo on imported shoes
  - d. Impose a revenue tariff

ANS: B                      DIF: 3                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

43. A country raises the tariff on imported cheese in order to increase its price above the price of domestically produced cheese. This is an example of \_\_\_\_\_.
- a. an exchange control
  - b. an import quota
  - c. a protective tariff
  - d. dumping

ANS: C                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

44. Tyra spent a two-week vacation in Italy and purchased more than \$1,000 worth of Venetian glass. Upon returning to the U.S., she was required to pay a \_\_\_\_\_ on the items.
- a. customs tax
  - b. protective tariff
  - c. revenue tariff
  - d. exchange rate tax

ANS: C                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

45. Which of the following are considered to be trade restrictions?
- a. Tariffs and social values
  - b. Embargoes and foreign trade zones
  - c. Import quotas and embargoes
  - d. Import quotas and foreign trade zones

ANS: C                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

46. The objective of an import quota is to \_\_\_\_\_.
- a. prevent dumping
  - b. raise revenue for the government
  - c. protect domestic industries
  - d. ban the importation of certain goods

ANS: C                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

47. A foreign-made household appliance is popular and is highly competitive with the same product manufactured domestically. To give the domestic industry a better chance to operate profitably, the government restricts the number of these appliances that can be imported by applying a(n) \_\_\_\_\_.
- a. import quota
  - b. embargo
  - c. protective tariff

d. revenue tariff

ANS: A

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Reflective Thinking

MSC: AP

48. With the fear of Mad Cow disease, certain countries have imposed a total ban on imported beef, creating a(n) \_\_\_\_\_.  
a. import quota  
b. embargo  
c. revenue tariff  
d. protective tariff

ANS: B

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Reflective Thinking

MSC: AP

49. If a foreign company offers steel in the U.S. below the company's cost of production, the company might be accused of \_\_\_\_\_.  
a. dumping  
b. protective tariffs  
c. an import quota  
d. a managed trade agreement

ANS: A

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Reflective Thinking

MSC: AP

50. The primary definition of dumping is the practice of \_\_\_\_\_.  
a. requiring that the seller of goods to also purchase something from the buyer  
b. selling damaged goods abroad illegally  
c. selling goods abroad at a price lower than the price in the domestic market  
d. selling counterfeit goods abroad

ANS: C

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Analytic

MSC: KN

51. The hypothetical country of Austrica requires foreign companies that buy and sell Austrica products use only Austrica currency in these transactions. Austrica is using \_\_\_\_\_ as a means of controlling international trade.  
a. governmentally granted rights  
b. exchange control  
c. international currency trading  
d. local banks

ANS: B

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Reflective Thinking

MSC: AP

52. A country is dumping steel in other countries. This country may be in violation of \_\_\_\_\_.  
a. World Bank Policies  
b. General Agreement on Tariffs and Trade (GATT) rules  
c. North American Free Trade Agreement (NAFTA) requirements  
d. International Monetary Fund (IMF) policies

ANS: B

DIF: 2

REF: Barriers to International Trade

NAT: AACSB Reflective Thinking

MSC: AP

53. Decisions of the World Trade Organization are \_\_\_\_\_.  
a. voluntary

- b. binding
- c. concerned only with political decisions
- d. involved only with disputes concerning the World Bank

ANS: B                      DIF: 2                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Analytic                      MSC: KN

54. A less-developed country wants to build new port facilities, which will allow it to increase agricultural exports. Financing for this project could come from the \_\_\_\_\_.
- a. International Monetary Fund
  - b. World Bank
  - c. United Nations
  - d. World Trade Organization

ANS: B                      DIF: 2                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

55. A less-developed nation is facing a financial crisis due to the rapid devaluation of its currency. Which of the following might aid this country?
- a. International Monetary Fund
  - b. World Bank
  - c. United Nations
  - d. World Trade Organization

ANS: A                      DIF: 2                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

56. The North American Free Trade Agreement (NAFTA) can be expected to \_\_\_\_\_.
- a. increase the number of low-wage jobs in the U.S
  - b. vastly increase trade among the member nations
  - c. increase trade restrictions among the member nations
  - d. result in political unification of the member countries

ANS: B                      DIF: 1                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

57. Through the \_\_\_\_\_, the Group of Eight economic powers (U.S., Britain, France, Germany, Japan, Italy, Canada and Russia) agreed to offer full debt relief to African countries that are working toward government reforms on behalf of education and welfare.
- a. United Nations
  - b. European Union
  - c. World Bank
  - d. International Monetary Fund

ANS: D                      DIF: 3                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Reflective Thinking                      MSC: AP

58. The Central America–Dominican Republic Free Trade Agreement (CAFTA-DR), enables free trade among the United States and all of the following countries EXCEPT \_\_\_\_\_.
- a. Costa Rica
  - b. the Dominican Republic
  - c. Panama
  - d. Honduras

ANS: C                      DIF: 3                      REF: Reducing Barriers to International Trade  
 NAT: AACSB Analytic                      MSC: KN



59. The European Union (EU) \_\_\_\_\_.

- a. recently became part of the North American Free Trade Agreement
- b. wants to promote European citizenship as a complement to national citizenship
- c. made trade with the U.S. more difficult
- d. introduced the euro to coincide with each country's own currency

ANS: B

DIF: 1

REF: Reducing Barriers to International Trade

NAT: AACSB Analytic

MSC: KN

60. The euro \_\_\_\_\_.

- a. has been adopted by all members of the European Union
- b. has been adopted by only France, Germany, and Italy
- c. is a legal currency in member nations
- d. will eventually become the world's most important currency

ANS: C

DIF: 2

REF: Reducing Barriers to International Trade

NAT: AACSB Analytic

MSC: KN

61. All of the following are part of the European community's plan to erase all barriers to free trade among its members with the exception of \_\_\_\_\_.

- a. business regulation and requirements being standardized
- b. trade duties and value-added taxes being standardized
- c. custom checks being eliminated
- d. legal systems being standardized

ANS: D

DIF: 3

REF: Reducing Barriers to International Trade

NAT: AACSB Analytic

MSC: KN

62. Which of the following is the first step in the decision for a business to expand globally?

- a. Determining which foreign markets to enter
- b. Determining how much it will cost to enter a new market
- c. Deciding how to organize the overseas operations
- d. Applying for special export credits

ANS: A

DIF: 1

REF: Going Global

NAT: AACSB Analytic

MSC: KN

63. Dynamic Industries produces a pump that becomes part of an excavating machine that is exported. Dynamic is involved in \_\_\_\_\_.

- a. countertrade
- b. foreign licensing
- c. indirect exporting
- d. international production

ANS: C

DIF: 1

REF: Going Global

NAT: AACSB Reflective Thinking

MSC: AP

64. If Berry Corp. sells microprocessors to an electronic equipment manufacturer in this country who then sells equipment containing the microprocessors to Japan, Berry Corp. is engaging in \_\_\_\_\_.

- a. indirect exporting
- b. countertrade
- c. foreign licensing
- d. international production

ANS: A

DIF: 2

REF: Going Global

65. Amit, CEO of Charter Chemical, has recognized the financial opportunities in the export market. Amit has hired a retired foreign freight forwarder to coordinate export operations. Charter Chemical is now involved in \_\_\_\_\_.  
a. overseas marketing  
b. international production  
c. direct exporting  
d. foreign licensing

ANS: C

DIF: 2

REF: Going Global

NAT: AACSB Reflective Thinking

MSC: AP

66. Which of the following is the most common form of international business?  
a. Foreign licensing  
b. Acquiring an existing firm in the foreign country to produce and market products  
c. Direct exporting  
d. Indirect exporting

ANS: C

DIF: 2

REF: Going Global

NAT: AACSB Analytic

MSC: KN

67. A U.S. agricultural producer sells wheat to a small country in Africa. The country pays the U.S. firm in seafood. This is an example of \_\_\_\_\_.  
a. foreign licensing  
b. direct exporting  
c. countertrade  
d. international production

ANS: C

DIF: 2

REF: Going Global

NAT: AACSB Reflective Thinking

MSC: AP

68. A Canadian software company that specializes in developing computer games enters into an agreement with a Japanese software company. Under this agreement, the Japanese firm has the right to manufacture and sell the Canadian firm's games in Japan. This agreement is an example of \_\_\_\_\_.  
a. countertrade  
b. foreign licensing  
c. international production  
d. direct exporting

ANS: B

DIF: 2

REF: Going Global

NAT: AACSB Reflective Thinking

MSC: AP

69. Speedy Lube enters into a contract with a foreign company to produce and distribute its products in a specific geographic area. Speedy Lube is involved in \_\_\_\_\_.  
a. foreign licensing  
b. countertrade  
c. international production  
d. direct exporting

ANS: A

DIF: 2

REF: Going Global

NAT: AACSB Reflective Thinking

MSC: AP

70. An American company that makes plastic garden furniture wants to market its products in a foreign country that has a high tariff barrier against imported plastic goods. One way the company can get around this problem is to \_\_\_\_\_.  
a. hire an export management team  
b. violate the Foreign Corrupt Practices Act  
c. submit a complaint to the U.S. Department of Commerce  
d. enter into a licensing agreement with companies within the foreign country to produce the furniture there

ANS: D                      DIF: 3                      REF: Going Global  
NAT: AACSB Reflective Thinking                      MSC: AP

71. BMW and Toyota set up a factory in Brazil to produce minivans. Slightly different minivan versions are sold in Brazil -- one as a Toyota and one as a BMW. This is an example of \_\_\_\_\_.  
a. a joint venture  
b. direct exporting  
c. foreign licensing  
d. countertrade

ANS: A                      DIF: 2                      REF: Going Global  
NAT: AACSB Reflective Thinking                      MSC: AP

72. A U.S. electronics firm sets up a venture capital firm to fund promising British and Irish start-up companies. This is an example of \_\_\_\_\_.  
a. a licensing agreement  
b. subcontracting  
c. a direct investment  
d. a joint venture

ANS: C                      DIF: 1                      REF: Going Global  
NAT: AACSB Reflective Thinking                      MSC: AP

73. By allowing a company to purchase another existing firm in the host country, a(n) \_\_\_\_\_ permits a largely domestic business to gain an international presence very quickly.  
a. acquisition  
b. foreign licensing agreement  
c. joint venture  
d. countertrade

ANS: A                      DIF: 2                      REF: Going Global  
NAT: AACSB Analytic                      MSC: KN

74. Which country features the most multinational corporations?  
a. United States  
b. Japan  
c. Britain  
d. Canada

ANS: A                      DIF: 1                      REF: Developing a Strategy for International Business  
NAT: AACSB Analytic                      MSC: KN

75. When a company specifies a standardized, worldwide product and marketing strategy it is following a(n) \_\_\_\_\_.  
a. international marketing strategy  
b. orderly marketing strategy

- c. global strategy
- d. multidomestic strategy

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Developing a Strategy for International Business  
MSC: KN

76. Ford Motor Co. is merging its individual operation into one so that it can use a standardized product and marketing strategy worldwide. This strategy can best be described as a(n) \_\_\_\_\_.  
a. international marketing strategy  
b. orderly marketing strategy  
c. global strategy  
d. multidomestic strategy

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Developing a Strategy for International Business  
MSC: AP

77. The Coca-Cola company designs its ads around the world to emphasize a common theme. These ads are adapted only slightly for local markets. Coca-Cola is using which of the following strategies in its international operations?  
a. Host country strategy  
b. Global strategy  
c. Multidomestic strategy  
d. Uniform pricing strategy

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Developing a Strategy for International Business  
MSC: AP

78. When firms develop products and marketing strategies that appeal to the customer tastes and buying habits of particular national markets, they are using a \_\_\_\_\_.  
a. global strategy  
b. free trade strategy  
c. uniform strategy  
d. multidomestic strategy

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Developing a Strategy for International Business  
MSC: KN

79. Film distributors sometimes change movie titles when marketing overseas due to language or slang barriers. Studios usually allow modification of its product as part of a \_\_\_\_\_ strategy.  
a. Multinational  
b. multidomestic business  
c. Global  
d. Uniform

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Developing a Strategy for International Business  
MSC: AP

80. Companies such as Dell Computer adapt their Web sites to specific countries. These companies are following a(n) \_\_\_\_\_ strategy.  
a. international marketing  
b. orderly marketing  
c. Global  
d. Multidomestic

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Developing a Strategy for International Business  
MSC: AP

## TRUE/FALSE

1. The value of imports and exports within the U.S. has more than doubled over the last ten years.

ANS: T                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

2. Exporting refers to selling domestically-produced goods and services in foreign countries.

ANS: T                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

3. Trading with other countries actually allows a company to spread its risk.

ANS: T                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

4. The majority of the world's population lives in less-developed countries.

ANS: T                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

5. According to the U.S. Census Bureau, the global birth rate is slowing overall.

ANS: T                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

6. Gross domestic product growth in the U.S. is higher than gross domestic product growth in any other country.

ANS: F                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

7. Japan is the only country that ranks among the world's highest in both population and wealth.

ANS: F                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

8. Less-developed countries do not represent as lucrative a market for U.S. firms because of their lower per capita incomes.

ANS: F                      DIF: 2                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

9. Ireland is one of the top international markets for U.S. trade.

ANS: F                      DIF: 1                      REF: Why Nations Trade  
NAT: AACSB Analytic                      MSC: KN

10. A country that can produce goods for less than any other country has an absolute advantage.

ANS: T                      DIF: 1                      REF: Why Nations Trade

NAT: AACSB Analytic

MSC: KN

11. Due to low labor costs, China has a comparative advantage in producing airplanes.

ANS: F

DIF: 1

REF: Why Nations Trade

NAT: AACSB Reflective Thinking

MSC: AP

12. A superior education system can lead to a comparative advantage in human resources.

ANS: T

DIF: 2

REF: Why Nations Trade

NAT: AACSB Analytic

MSC: KN

13. A country's comparative advantage is measured only in manufactured goods.

ANS: F

DIF: 2

REF: Why Nations Trade

NAT: AACSB Analytic

MSC: KN

14. Federal Express is an example of a U.S. service exporter.

ANS: T

PTS: 1

DIF: 2

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

15. A country's trade balance is determined by comparing the total amount of its exports to its imports.

ANS: T

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

16. An unfavorable balance of trade is known as a trade surplus.

ANS: F

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

17. A trade deficit exists when a nation's imports exceed its exports.

ANS: T

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

18. If a nation has an unfavorable balance of trade, it must also have an unfavorable balance of payments.

ANS: F

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

19. The U.S. has an international trade deficit in the sale and purchase of goods, but a trade surplus in services.

ANS: T

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

20. A nation's exchange rate is the rate at which its currency can be exchanged for goods and services.

ANS: F

DIF: 1

REF: Measuring Trade between Nations

NAT: AACSB Analytic

MSC: KN

21. Exchange rates are set by the various national governments.
- ANS: F                      DIF: 1                      REF: Measuring Trade between Nations  
NAT: AACSB Analytic                      MSC: KN
22. If the value of the Canadian dollar falls relative to the U.S. dollar, Canadian exports to the U.S. should increase.
- ANS: T                      DIF: 2                      REF: Measuring Trade between Nations  
NAT: AACSB Reflective Thinking                      MSC: AP
23. A strong Euro is good for European exporters.
- ANS: F                      DIF: 2                      REF: Measuring Trade between Nation  
NAT: AACSB Reflective Thinking                      MSC: AP
24. National governments sometimes take deliberate action to devalue their currencies as a way to increase exports and stimulate foreign investment.
- ANS: T                      DIF: 2                      REF: Measuring Trade between Nations  
NAT: AACSB Analytic                      MSC: KN
25. Since exchange rates are volatile, U.S. companies do not consider them when establishing prices for their products overseas.
- ANS: F                      DIF: 2                      REF: Measuring Trade between Nations  
NAT: AACSB Analytic                      MSC: KN
26. Currencies that can be easily converted into other currencies are called soft currencies.
- ANS: F                      DIF: 2                      REF: Measuring Trade between Nations  
NAT: AACSB Analytic                      MSC: KN
27. English is the most widely spoken language in the world.
- ANS: F                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Communication                      MSC: KN
28. Cultural sensitivity is not essential in cyber space, due to the homogeneous environment.
- ANS: F                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Communication                      MSC: AP
29. Compared with the U.S., Europeans value employee benefits more than low unemployment and business efficiency.
- ANS: T                      DIF: 1                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN
30. A U.S. company operating in the European Union is not required to adhere to European regulations, such as mandatory vacation time.
- ANS: F                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

31. Economically speaking, the United States can be described as a national market with a single economy.

ANS: T                      DIF: 3                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

32. Along with transportation and energy facilities, the Internet could be considered part of a nation's infrastructure.

ANS: T                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Technology                      MSC: KN

33. The Foreign Corrupt Practices Act regulates the payment of bribes by U.S. firms to officials in foreign countries where such practices are customary.

ANS: F                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

34. If a country that produces wine decides to enact a tariff on imported wine to match the country's domestic price, this would be an example of a protective tariff.

ANS: T                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

35. A revenue tariff is designed to raise funds for the government.

ANS: T                      DIF: 1                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

36. The European Union bans imports of any U.S. agricultural product that has been treated with growth hormones. In response, the U.S. triples tariffs on imports of selected European products. This would be an example of a protective tariff.

ANS: T                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

37. An import quota is an example of a cultural barrier to global business.

ANS: F                      DIF: 1                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

38. If the price of an imported product sells for less in the United States than it does in the producing country, the producing country could be accused of dumping.

ANS: T                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: AP

39. Exchange controls affect both exporters and importers.

ANS: T                      DIF: 2                      REF: Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN



40. The World Trade Organization (WTO) is the successor to the General Agreement on Tariffs and Trade (GATT).

ANS: T                      DIF: 2                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

41. The World Trade Organization (WTO) makes decisions that are binding on member nations involved in disputes.

ANS: T                      DIF: 1                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

42. The government of a less-developed country wants to build several new healthcare facilities in rural areas and improve port facilities to promote exports. The World Bank might lend money to help the country finance these construction projects.

ANS: T                      DIF: 3                      REF: Reducing Barriers to International Trade  
NAT: AACSB Reflective Thinking                      MSC: AP

43. The International Monetary Fund (IMF) was created to promote trade through financial cooperation.

ANS: T                      DIF: 1                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

44. The North American Free Trade Agreement (NAFTA) is a trade accord designed to reduce trade restrictions between the two neighboring countries of the United States and Canada.

ANS: F                      DIF: 1                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

45. Trade among the NAFTA nations has changed little since the adoption of the agreement.

ANS: F                      DIF: 1                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

46. Since NAFTA, Mexico's trade with the United States and Canada has tripled.

ANS: T                      DIF: 2                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

47. All European countries are now members of the European Union (EU).

ANS: F                      DIF: 2                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

48. All members of the European Union have adopted the euro as their currency.

ANS: F                      DIF: 2                      REF: Reducing Barriers to International Trade  
NAT: AACSB Analytic                      MSC: KN

49. U.S. sugar producers welcomed the Central America Free Trade Agreement (CAFTA) because relaxed trade rules with Central America drove prices higher.

ANS: F                      DIF: 2                      REF: Reducing Barriers to International Trade

NAT: AACSB Reflective Thinking      MSC: AP

50. An importing or exporting strategy provides the most basic level of international involvement, with the least risk and control.

ANS: T      DIF: 2      REF: Going Global  
NAT: AACSB Analytic      MSC: KN

51. Indirect exporting involves producing a component for a product that is subsequently exported.

ANS: T      DIF: 1      REF: Going Global  
NAT: AACSB Analytic      MSC: KN

52. A firm in the Czech Republic buys U.S. agricultural products, paying for the products with crude oil. This is an example of countertrade.

ANS: T      DIF: 2      REF: Going Global  
NAT: AACSB Reflective Thinking      MSC: AP

53. Countertrade is another term for international bartering.

ANS: T      DIF: 1      REF: Going Global  
NAT: AACSB Analytic      MSC: KN

54. When McDonald's franchises into foreign countries, they are engaging in direct international investment.

ANS: F      DIF: 2      REF: Going Global  
NAT: AACSB Reflective Thinking      MSC: KN

55. A foreign licensing agreement is one way of avoiding trade barriers and other restrictions.

ANS: T      DIF: 2      REF: Going Global  
NAT: AACSB Reflective Thinking      MSC: AP

56. One advantage of a licensing agreement is that little or no investment is required to begin operating.

ANS: T      DIF: 1      REF: Going Global  
NAT: AACSB Analytic      MSC: KN

57. One advantage of using foreign subcontractors is that firms have almost total control over the business practices of their subcontractors.

ANS: F      DIF: 1      REF: Going Global  
NAT: AACSB Analytic      MSC: KN

58. A joint venture is a contractual form of international investment.

ANS: F      DIF: 2      REF: Developing a Strategy for International Business  
NAT: AACSB Analytic      MSC: KN

59. The United States is home to more multinational corporations than any other country.

ANS: T      DIF: 1      REF: Developing a Strategy for International Business

NAT: AACSB Analytic

MSC: KN

60. A global business strategy involves separate product and marketing strategies that vary from one nation to another.

ANS: F                      DIF: 1

REF: Developing a Strategy for International Business

NAT: AACSB Analytic

MSC: KN

61. The sale by Toyota of its Camry model throughout the world is an example of a global business strategy.

ANS: T                      DIF: 2

REF: Developing a Strategy for International Business

NAT: AACSB Reflective Thinking

MSC: AP

62. A global marketing approach is ideal for marketing luxury items due to their universal appeal.

ANS: T                      DIF: 2

REF: Developing a Strategy for International Business

NAT: AACSB Reflective Thinking

MSC: AP

63. Under a multidomestic strategy, each national market is treated differently.

ANS: T                      DIF: 1

REF: Developing a Strategy for International Business

NAT: AACSB Analytic

MSC: KN

## Chapter 5—Options for Organizing Small and Large Businesses

### MATCHING

*Complete the following using the terms listed.*

- a. sole proprietorship
- b. small business
- c. corporation
- d. merger
- e. acquisition
- f. horizontal merger
- g. conglomerate merger
- h. cooperative
- i. vertical merger
- j. business incubators
- k. business plan
- l. alien corporation
- m. preferred stock
- n. franchising

1. The form of business ownership that is subject to the least legal red tape is \_\_\_\_\_.
2. A(n) \_\_\_\_\_ joins firms in the same industry that wish to diversify, increase their customer bases, cut costs, or offer expanded product lines.
3. The form of business ownership that establishes the firm as a separate legal entity is the \_\_\_\_\_.
4. A(n) \_\_\_\_\_ combines firms operating at different levels in the production and marketing process.
5. A(n) \_\_\_\_\_ business consists of owners who join forces to collectively operate all or part of the functions in their industry.
6. During a(n) \_\_\_\_\_, two or more firms combine to form one company.
7. A(n) \_\_\_\_\_ occurs when one firm purchases the property and assumes the obligations of another.
8. A merger of firms in unrelated industries is called a(n) \_\_\_\_\_.
9. A(n) \_\_\_\_\_ is independently owned and operated, and is responsible for more than half of the nation's gross domestic product.
10. A(n) \_\_\_\_\_ is formed in one nation and operates in another.
11. \_\_\_\_\_ is a contractual agreement that specifies the methods by which a dealer can produce and market a supplier's good or service.
12. Having a(n) \_\_\_\_\_ improves the chances of success for a new business by providing an orderly statement of a company's goals.
13. Owners of \_\_\_\_\_ have limited voting rights, but are entitled to the earliest dividends.
14. Small start-up ventures looking for low-cost shared facilities can utilize \_\_\_\_\_, offered by local community agencies.

- |                     |        |   |
|---------------------|--------|---|
| 1. ANS: A           | DIF: 2 | REF: Alternatives for Organizing a Business |
| NAT: AACSB Analytic |        | MSC: KN                                     |
| 2. ANS: F           | DIF: 2 | REF: When Businesses Join Forces            |
| NAT: AACSB Analytic |        | MSC: KN                                     |
| 3. ANS: C           | DIF: 2 | REF: Alternatives for Organizing a Business |
| NAT: AACSB Analytic |        | MSC: KN                                     |
| 4. ANS: I           | DIF: 2 | REF: When Businesses Join Forces            |
| NAT: AACSB Analytic |        | MSC: KN                                     |
| 5. ANS: H           | DIF: 2 | REF: Public and Collective Ownership        |
| NAT: AACSB Analytic |        | MSC: KN                                     |

6.	ANS: D	DIF: 2	REF: When Businesses Join Forces
	NAT: AACSB Analytic		MSC: KN
7.	ANS: E	DIF: 2	REF: When Businesses Join Forces
	NAT: AACSB Analytic		MSC: KN
8.	ANS: G	DIF: 2	REF: When Businesses Join Forces
	NAT: AACSB Analytic		MSC: KN
9.	ANS: B	DIF: 2	REF: Most Businesses are Small Businesses
	NAT: AACSB Analytic		MSC: KN
10.	ANS: L	DIF: 2	REF: Organizing and Operating a Corporation
	NAT: AACSB Analytic		MSC: KN
11.	ANS: N	DIF: 2	REF: The Franchising Alternative
	NAT: AACSB Analytic		MSC: KN
12.	ANS: K	DIF: 2	REF: Increasing the Likelihood of Small-Business Success
	NAT: AACSB Analytic		MSC: KN
13.	ANS: M	DIF: 2	REF: Organizing and Operating a Corporation
	NAT: AACSB Analytic		MSC: KN
14.	ANS: J	DIF: 2	REF: Increasing the Likelihood of Small-Business Success
	NAT: AACSB Analytic		MSC: KN

## ESSAY

1. Define the concept of small business and identify the industries in which small businesses are established.

ANS:

Small business in the United States is defined by the Small Business Administration as a company that is independently owned and operated and is not dominant in its field. The definition is also based on annual sales and the number of employees. Manufacturing firms having less than 500 employees are classified as small business, while small business wholesalers cannot have more than 100 employees. Retailers can have up to \$6 million in annual sales and be considered small businesses, while an agricultural business cannot have more than \$750,000 in annual sales to be classified as a small business. About 50 percent of small businesses are operated out of the home. Most small businesses are involved in retailing and service industries.

DIF: 3

REF: Most Businesses are Small Businesses

NAT: AACSB Analytic

MSC: KN

2. Why are small businesses especially important to women and minorities?

ANS:

Small businesses are the launching pad for entrepreneurs from every sector of the diverse U.S. population. They are especially important for women and members of minority groups because small businesses provide greater opportunities. About 34 percent of small businesses are owned by women, and approximately 15 percent are owned by minorities.

DIF: 2

REF: Increasing the Likelihood of Small-Business Success

NAT:

AACSB Diversity

MSC: AP

3. Describe the benefits and drawbacks of starting a home-based business.

ANS:

The primary benefit of a home-based business is a lower start-up cost. With a home-based business, there is no requirement to lease or maintain office or warehouse space (unless the business owner chooses). With access to the Internet, a home-based business owner can even sell goods through online auction sites, such as eBay, as well as utilizing a Web site for marketing purposes. Other benefits include greater flexibility and freedom from the time and expense of commuting. Drawbacks are isolation and less visibility to customers. Additionally, a home-based business owner might give the impression of being larger and more capable than his or her present circumstance.

DIF: 2                      REF: Most Businesses are Small Businesses  
NAT: AACSB Reflective Thinking                      MSC: AP

4. Discuss the economic and social contributions of small business.

ANS:

Small businesses create 75 percent of the new jobs in the U.S. economy and employ half of U.S. workers. They provide valuable outlets for entrepreneurial activity and often contribute to the creation and innovation of new industries or development of new business processes. Women, minorities, and immigrants find small-business ownership to be an attractive alternative to working in large firms and are starting new companies at a much faster rate than the overall growth in U.S. businesses. Small firms may also offer enhanced lifestyle flexibility and opportunities to gain personal satisfaction.

DIF: 2                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

5. How have corporate downsizing and outsourcing created new opportunities for small businesses?

ANS:

The movement toward corporate downsizing that began in the early 1990s created a demand for other businesses to perform activities previously handled by company employees. Outsourcing activities such as security, employee benefits, maintenance, and logistics created opportunities that have often been filled by employees of small businesses.

DIF: 3                      REF: Contributions of Small Business to the Economy      NAT: AACSB  
Reflective Thinking  
MSC: AP

6. Describe three primary reasons a small business might fail.

ANS:

Small businesses might fail due to management shortcomings, inadequate financing, and difficulty dealing with government regulations. Business founders often possess great strengths in specific areas, but they may not be adept in areas such as accounting and order fulfillment. Inadequate financing is another leading cause of small business failure, particularly uneven cash flows. Even home-based businesses have to accommodate start-up expenses. Finally, small businesses can drown in paperwork and regulation red tape. While a large firm can hire specialists in a particular area, small business owners have to deal with limited staffs and budgets.

DIF: 3                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

7. List the elements contained in a business plan.

ANS:

A typical business plan contains the following elements: (1) an executive summary answering the who, what, why, where, when, and how questions for the business in brief; (2) an introduction stating the concept, purpose, and objectives of the proposed business, along with an overview of the industry; (3) a detailed marketing plan describing the firm's target market, its anticipated competition, and pricing; (4) a financial section outlining sources of capital, cash flow projections, and the breakeven point; and (5) resumes of the principals.

DIF: 3                      REF: Increasing the Likelihood of Small-Business Success                      NAT:  
AACSB Analytic  
MSC: KN

8. How does the Small Business Administration (SBA) offer assistance to business owners?

ANS:

The Small Business Administration (SBA) works as a clearinghouse for individuals wishing to start a small business or to expand an existing small business. The SBA offers financial assistance, aids in government procurement matters, and provides management training and consulting. The SBA also guarantees microloans of up to \$35,000 to start-ups and other very small firms. Additionally, loans are available through SBA-licensed organizations called Small Business Investment Companies, which are run by venture capitalists. The SBA also underwrites active capital, which matches entrepreneurs with potential investors.

DIF: 3                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN

9. What is a business incubator?

ANS:

In recent years, local community agencies interested in encouraging business development have implemented a concept called a business incubator to provide low-cost shared business facilities to small start-up ventures. Ventures share clerical staff, computers, telecommunications, and other business services.

DIF: 2                      REF: Increasing the Likelihood of Small-Business Success                      NAT:  
AACSB Analytic  
MSC: KN

10. Describe the primary obstacles faced by minority entrepreneurs.

ANS:

Minority entrepreneurs have made great strides in recent years but still face a number of obstacles. Minority entrepreneurs tend to start their businesses on a smaller scale and have more difficulty finding investors than other entrepreneurs. They depend less on bank credit as a source of financing. Some argue that banks are not as likely to lend money to minority entrepreneurs as they are to other entrepreneurs. Another problem is the fact that minority business networks aren't as well developed. Business networks are often important sources of customers and financing.

DIF: 2                      REF: Increasing the Likelihood of Small-Business Success                      NAT:  
AACSB Diversity  
MSC: AP

11. Explain the benefits and drawbacks of buying a franchise.

ANS:

Advantages include the franchisee obtaining a known brand name. Effective franchisers provide advertising help, site selection programs, building plans, accounting systems, management training, and name recognition. Additionally, good franchisers spend time and money over the fee to help the business get started. Disadvantages include expensive franchise fees and future payments. Another potential drawback is that the franchisee is linked to the reputation and management of the franchise.

DIF: 2

REF: The Franchise Alternative

NAT: AACSB Analytic

MSC: KN

12. What are the three forms of business ownership? How are they different from one another?

ANS:

The three forms of business ownership are sole proprietorships, partnerships, and corporations. Sole proprietorships make up 90 percent of all small businesses. A sole proprietorship offers the advantage of being able to make changes and decisions quickly. The major disadvantage is that the sole proprietor is totally responsible for all debts. The partnership spreads out the responsibilities and allows the business to grow. However, each partner is totally financially responsible for his or her actions, as well as those of each other's partners. The corporation limits liability, but deals with double taxation.

DIF: 3

REF: Alternatives for Organizing a Business

NAT: AACSB Reflective Thinking

MSC: AP

13. List the steps required when incorporating a business. Many large, prominent corporations are incorporated in which state? Why?

ANS:

Creating a corporation involves the following steps: (1) deciding where to incorporate; (2) drawing up a corporate charter; and (3) preparing a set of bylaws. All states have laws regarding what elements the corporate charter and bylaws must contain. Many large corporations are incorporated in Delaware due to a favorable legal climate and the speed and simplicity of the incorporation process.

DIF: 2

REF: Most Businesses are Small Businesses

NAT: AACSB Reflective Thinking

MSC: AP

14. Define the role of corporate management.

ANS:

Stockholders own the corporation and elect officers who are responsible for developing corporate policy and supervising the activities of the chief executive officer. The number of stockholders varies depending on whether the firm is privately owned or publicly owned. Individual managers are given specific goals that are included in a set of short-range and long-range operating plans.

DIF: 2

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

15. Distinguish between a vertical merger, a horizontal merger, and a conglomerate merger. Give an example of each. Which is likely to receive the closest government scrutiny?

ANS:



A vertical merger combines firms operating at different levels in the production and marketing process, such as utility and coal companies. A horizontal merger is when a company acquires a competitor. Bank mergers are examples of horizontal mergers. A conglomerate is when a company acquires another company that is in an unrelated business field. An example would be a food company acquiring a chain of home improvement stores. Because horizontal mergers often result in reduced competition in industries, they receive the closest government scrutiny.

DIF: 3                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

16. Discuss two alternatives to private ownership and give an example of each.

ANS:

Public ownership and cooperatives are alternatives to private ownership. Public ownership refers to organizations owned by municipal, state, or federal governments. Examples include a local government owning a parking structure and the federal government owning and operating Amtrak. Cooperatives are organizations whose owners collectively operate all or part of the industry. Cooperatives may be organized by producers or consumers.

DIF: 3                      REF: Public and collective Ownership                      NAT: AACSB Reflective Thinking  
MSC: AP

### **MULTIPLE CHOICE**

1. Approximately \_\_\_\_\_ percent of all U.S. firms employ 100 or fewer workers.
- 25
  - 50
  - 75
  - 98

ANS: D                      DIF: 1                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

2. \_\_\_\_\_ are the largest group of minority business owners in the United States.
- African Americans
  - Hispanics
  - Native Americans
  - Asian Americans

ANS: B                      DIF: 1                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Diversity                      MSC: KN

3. What percentage of all small businesses are owned by women?
- 17
  - 25
  - 40
  - 52

ANS: C                      DIF: 1                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Diversity                      MSC: KN

4. Retailers who generate up to \_\_\_\_\_ in sales are considered to be small businesses.
- \$500,000
  - \$1 million

- c. \$6 million
- d. \$10 million

ANS: C                      DIF: 1                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

5. Traditionally, small businesses tended to be concentrated in the \_\_\_\_\_ industry.
- a. retailing
  - b. wholesaling
  - c. manufacturing
  - d. importing/exporting

ANS: A                      DIF: 1                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

6. Of the following industries, which is most likely to be owned by a small business owner?
- a. nursing homes
  - b. paper mills
  - c. home building
  - d. railroad car makers

ANS: C                      DIF: 1                      REF: Most Businesses Are Small Businesses NAT:  
AACSB Analytic                      MSC: KN

7. Although the average farm size has gotten \_\_\_\_\_, the majority of farmers operate as \_\_\_\_\_ businesses.
- a. smaller; small
  - b. larger; small
  - c. smaller; large
  - d. larger; large

ANS: B                      DIF: 2                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

8. \_\_\_\_\_ of small businesses operate out of the owner's residence today.
- a. Less than 25 percent
  - b. About 25 percent
  - c. About 50 percent
  - d. About 75 percent

ANS: C                      DIF: 2                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

9. Locating a business in the home creates \_\_\_\_\_.
- a. family tension
  - b. lower overhead
  - c. more work
  - d. more overtime

ANS: B                      DIF: 2                      REF: Most Businesses Are Small Businesses  
NAT: AACSB Reflective Thinking                      MSC: AP

10. Candace is planning to open a consulting business in handling dangerous hospital wastes. She has contacted several hospitals and HMOs. They plan to give her a considerable portion of their business because she can solve their disposal problem through \_\_\_\_\_.
- a. capital

- b. outsourcing
- c. new employees
- d. training

ANS: B                      DIF: 2                      REF: Most Businesses Are Small Businesses  
 NAT: AACSB Reflective Thinking                      MSC: AP

11. Corporate downsizing has created a demand for outsourcing activities such as \_\_\_\_\_ to small businesses.
- a. customer service
  - b. manufacturing
  - c. public relations
  - d. security

ANS: D                      DIF: 3                      REF: Most Businesses Are Small Businesses  
 NAT: AACSB Reflective Thinking                      MSC: AP

12. All of the following are contributions of small businesses EXCEPT:
- a. They provide more job security than large corporations.
  - b. They fuel local economies.
  - c. They provide needed services to the larger corporate community.
  - d. They create a substantial number of new jobs.

ANS: A                      DIF: 2                      REF: Contribution of Small Businesses to the Economy  
 NAT: AACSB Analytic                      MSC: KN

13. Innovation is possible in small business because they \_\_\_\_\_.
- a. have the funds to turn new ideas into large-scale, profitable ventures
  - b. employ highly intelligent, motivated people
  - c. provide fertile ground for new ideas
  - d. work harder

ANS: C                      DIF: 2                      REF: Contribution of Small Businesses to the Economy  
 NAT: AACSB Reflective Thinking                      MSC: AP

14. \_\_\_\_\_ newly launched businesses fail within two years after commencing operations.
- a. Less than one in ten
  - b. About one of every three
  - c. About half of all
  - d. Almost all

ANS: B                      DIF: 1                      REF: Why Small Businesses Fail  
 NAT: AACSB Analytic                      MSC: KN

15. What percentage of new businesses fail within the first ten years?
- a. Less than 50 percent
  - b. 50 percent
  - c. 75 percent
  - d. More than 75 percent

ANS: D                      DIF: 2                      REF: Why Small Businesses Fail  
 NAT: AACSB Analytic                      MSC: KN

16. If you are considering starting your own business, what should you do first?
- a. Learn the basics of business.

- b. Recognize your limitations.
- c. Write up a business plan.
- d. Apply for a Small Business Administration (SBA) loan.

ANS: A                      DIF: 1                      REF: Why Small Businesses Fail  
NAT: AACSB Reflective Thinking                      MSC: AP

17. Which of the following is the leading cause of today's small business failures?
- a. Management shortcomings
  - b. Poor products and/or services
  - c. No marketing plan
  - d. Excess government regulation

ANS: A                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

18. A small business fails in the management sense when \_\_\_\_\_.
- a. financial training is lacking
  - b. marketing training is lacking
  - c. staffs are overworked
  - d. overall business training is lacking

ANS: D                      DIF: 3                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

19. Many businesses fail during the early years because of \_\_\_\_\_.
- a. unmotivated owners
  - b. poor planning
  - c. niche markets
  - d. inadequate financing

ANS: D                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

20. According to surveys, the majority of small businesses rely on \_\_\_\_\_ as a source of funding.
- a. trade credit
  - b. personal credit cards
  - c. business credit cards
  - d. bank loans

ANS: A                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

21. A business plan for a small business typically contains all of the following EXCEPT \_\_\_\_\_.
- a. a statement of the company's goals
  - b. a detailed time frame for achieving goals
  - c. projections of money flows
  - d. a time frame for selling stock to investors

ANS: D                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN

22. When the Small Business Administration (SBA) assists a small business in applying for a major loan, it acts as the lender's \_\_\_\_\_.
- a. bank

- b. savings and loan association
- c. credit union
- d. guarantor

ANS: D                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
 NAT: AACSB Reflective Thinking                      MSC: AP

23. Apple Computer, FedEx, Staples, and many other well-known companies used \_\_\_\_\_ when they were start-ups.
- a. active capital
  - b. Small Business Investment Company (SBIC) financing
  - c. joint ventures
  - d. microloan financing

ANS: B                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
 NAT: AACSB Analytic                      MSC: KN

24. Martha is the owner of a very small technology start-up. She wants to expand her business and is willing to exchange partial ownership for financing and advice. She should \_\_\_\_\_.
- a. set up a business incubator
  - b. use active capital
  - c. seek venture capital financing
  - d. apply for Small Business Investment Company (SBIC) financing

ANS: B                      DIF: 3                      REF: Increasing the Likelihood of Small-Business Success  
 NAT: AACSB Reflective Thinking                      MSC: AP

25. The Small Business Administration (SBA) provides all of the following EXCEPT \_\_\_\_\_.
- a. loan guarantees
  - b. advice from retired executives
  - c. access to venture capitalists
  - d. business incubators

ANS: D                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
 NAT: AACSB Analytic                      MSC: KN

26. All of the following organizations are regularly and directly involved in sponsoring business incubators EXCEPT \_\_\_\_\_.
- a. the federal government
  - b. colleges and universities
  - c. not-for-profit organizations
  - d. profit-seeking businesses

ANS: A                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
 NAT: AACSB Analytic                      MSC: KN

27. Haseem owns a small business and needs assistance on a variety of issues. The Small Business Administration (SBA) can help him by providing \_\_\_\_\_.
- a. an on-site counselor
  - b. toll-free telephone advice
  - c. an accountant

d. an advertising specialist

ANS: A                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Reflective Thinking                      MSC: AP

28. The fastest growth of women-owned small businesses is occurring in all of the following industries EXCEPT \_\_\_\_\_.
- a. entertainment and recreation
  - b. transportation and communication
  - c. agricultural services
  - d. engineering

ANS: D                      DIF: 1                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Diversity                      MSC: KN

29. The \_\_\_\_\_ industry represents the greatest percentage of minority-owned businesses.
- a. finance
  - b. services
  - c. retail
  - d. transportation

ANS: B                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Diversity                      MSC: KN

30. Franchising began \_\_\_\_\_.
- a. during the early 1800s
  - b. just after the U.S. Civil War
  - c. during the 1920s
  - d. just after World War II

ANS: B                      DIF: 2                      REF: The Franchising Alternative NAT: AACSB  
Analytic                      MSC: KN

31. Which company was the first to begin franchising in the United States?
- a. Singer Sewing Company
  - b. Harley-Davidson
  - c. Holiday Inn
  - d. Walgreen's

ANS: A                      DIF: 2                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

32. A new franchise is opened every \_\_\_\_\_ minutes every business day
- a. sixty
  - b. one-hundred twenty
  - c. eight
  - d. thirty

ANS: C                      DIF: 1                      REF: The Franchising Alternative NAT: AACSB  
Analytic                      MSC: KN

33. In total, U.S. franchises generate over \_\_\_\_\_ in annual sales.
- a. \$100 billion

- b. \$500 billion
- c. \$750 billion
- d. \$1.5 trillion

ANS: D                      DIF: 2                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

34. The two principals in a franchising agreement are \_\_\_\_\_.
- a. manager and worker
  - b. franchiser and worker
  - c. franchiser and franchisee
  - d. big money investor and start-up visionary

ANS: C                      DIF: 1                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

35. The franchisor provides all of the following services EXCEPT \_\_\_\_\_.
- a. building plan
  - b. accounting systems
  - c. on-site management
  - d. name recognition

ANS: C                      DIF: 1                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

36. Greg buys a McDonald's franchise. Greg is the \_\_\_\_\_ and \_\_\_\_\_ for McDonald's.
- a. franchisor; works
  - b. franchisor; does not work
  - c. franchisee; works
  - d. franchisee; does not work

ANS: D                      DIF: 2                      REF: The Franchising Alternative  
NAT: AACSB Reflective Thinking                      MSC: AP

37. A restaurant franchisee purchases which of the following from the franchisor?
- a. Only food
  - b. Both tangible and intangible assets
  - c. Only equipment
  - d. Only name recognition

ANS: B                      DIF: 1                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

38. The advertising plan for a franchise is usually put together by the \_\_\_\_\_.
- a. franchisee
  - b. advertising agency
  - c. franchisor
  - d. co-owners

ANS: C                      DIF: 1                      REF: The Franchising Alternative  
NAT: AACSB Analytic                      MSC: KN

39. Franchising offers all of the following advantages EXCEPT \_\_\_\_\_.
- a. prior performance record
  - b. a recognizable company name
  - c. guaranteed level of profitability

d. training

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: The Franchising Alternative  
MSC: KN

40. If you are a highly independent individual used to having your own way, the best business format for you is to being as a \_\_\_\_\_.
- a. partnership
  - b. corporation
  - c. sole proprietorship
  - d. limited liability corporation

ANS: C                      DIF: 1  
NAT: AACSB Reflective Thinking

REF: Alternatives for Organizing a Business  
MSC: AP

41. Sole proprietorships have all of the following advantages EXCEPT \_\_\_\_\_.
- a. ease of formation
  - b. unlimited life
  - c. ease of liquidation
  - d. profits subject only to a single tax

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Alternatives for Organizing a Business  
MSC: KN

42. The stock of Old Germany Brewery is totally owned by the Precter family. When the family elected to move from a sole proprietorship to a partnership, the greatest concern was \_\_\_\_\_.
- a. there might be family squabbles
  - b. how to limit liability
  - c. choosing work assignments
  - d. deciding on the person in charge

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Alternatives for Organizing a Business  
MSC: AP

43. If Richard, Sarah, and Trevor go to the bank to borrow money to expand their business, the bank is most likely to \_\_\_\_\_.
- a. issue a loan right away
  - b. call in the Small Business Administration (SBA)
  - c. require a mortgage on the assets of each as a loan requirement
  - d. refuse to make the loan if one of the partners has less money than the others

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Alternatives for Organizing a Business  
MSC: AP

44. If a partnership wishes to limit liability, it has the option to \_\_\_\_\_.
- a. pledge funds
  - b. divide into sole proprietorships
  - c. set up a limited partnership
  - d. withhold funds

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Alternatives for Organizing a Business  
MSC: KN

45. Devon and Keith opened a restaurant. A few years into the business partnership, Keith left the restaurant, and Devon discovered that Keith had charged numerous expenses to their account, which resulted in thousands of dollars worth of debt. What option does Devon have in this situation?



- a. He doesn't have to worry because, according to law, everyone is responsible for their own debts.
- b. Business creditors will pursue Keith alone since his signature authorized payments.
- c. Business creditors will expect Devon to pay at least half the debt since he owns 50 percent of the business.
- d. Business creditors will expect full payment from Devon.

ANS: D                      DIF: 3                      REF: Alternatives for Organizing a Business  
NAT: AACSB Reflective Thinking                      MSC: AP

46. The largest U.S. corporation in terms of sales is \_\_\_\_\_.
- a. General Motors
  - b. Microsoft
  - c. Wal-Mart
  - d. ExxonMobil

ANS: C                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

47. Corporations have all of the following advantages EXCEPT \_\_\_\_\_.
- a. favorable tax treatment
  - b. limited liability
  - c. expanded financial capacity
  - d. unlimited life

ANS: A                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

48. The maximum number of shareholders is limited to \_\_\_\_\_ for a firm to qualify as a subchapter S corporation.
- a. 25
  - b. 50
  - c. 75
  - d. 100

ANS: D                      DIF: 3                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

49. Anita established a corporation in Nebraska, but she recently moved to Colorado where she now conducts her business. What type of corporation does Anita own?
- a. foreign corporation
  - b. domestic corporation
  - c. alien corporation
  - d. national corporation

ANS: A                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Reflective Thinking                      MSC: AP

50. For its favorable legal climate, as well as the ease and simplicity of its incorporation process, \_\_\_\_\_ is the most popular state of incorporation for many members of the Fortune 500.
- a. Delaware
  - b. New York
  - c. California
  - d. Florida

ANS: A                      DIF: 2                      REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

51. The board of directors of a corporation is elected by the \_\_\_\_\_.  
a. corporation's employees  
b. bondholders and other creditors  
c. corporate officers  
d. stockholders

ANS: D

DIF: 1

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

52. When founding members of Mary Kay Inc. wanted to regain family control of the cosmetics business, they changed the company ownership from publicly held to \_\_\_\_\_, in order to control and manage corporate activities.  
a. limited  
b. preferred  
c. closed  
d. restricted

ANS: C

DIF: 3

REF: Organizing and Operating a Corporation

NAT: AACSB Reflective Thinking

MSC: AP

53. Isabella owns 100 shares of IBM \_\_\_\_\_ stock, which means she has voting rights on company decisions at IBM, but only residual claims on the company's assets.  
a. preferred  
b. principal  
c. management  
d. common

ANS: D

DIF: 2

REF: Organizing and Operating a Corporation

NAT: AACSB Reflective Thinking

MSC: AP

54. All of the following are duties of the board of directors of a corporation EXCEPT \_\_\_\_\_.  
a. hiring the corporation's chief executive officer  
b. authorizing major transactions of the corporation  
c. guaranteeing the payment of cash dividends every year  
d. electing its own officers

ANS: C

DIF: 3

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

55. The board of directors usually includes some individuals who are not employed by the corporation. These people are referred to as \_\_\_\_\_.  
a. inside directors  
b. outside directors  
c. influential board members  
d. members of top management

ANS: B

DIF: 1

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

56. Lucia has a management position in a large corporation. Her responsibilities include the full financial authority to make appropriations and authorize expenditures. Lucia is likely to be a member of \_\_\_\_\_ management.  
a. top

- b. advisory
- c. middle
- d. supervisory

ANS: A                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Reflective Thinking                      MSC: AP

57. Lance is a produce manager for a supermarket. His job involves coordinating day-to-day operations, supervising employees, and evaluating employees' job performances. Lance is considered to be operating at the \_\_\_\_\_ management level.
- a. top
  - b. supervisory
  - c. intermediate
  - d. middle

ANS: B                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Reflective Thinking                      MSC: AP

58. An acquisition occurs when \_\_\_\_\_.
- a. one corporation owns 8 percent of the stock of another corporation
  - b. one company purchases the property and assumes the obligations of another company
  - c. two or more firms combine to form a single company
  - d. owners of small companies band together to operate their businesses collectively

ANS: B                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

59. In a landmark \_\_\_\_\_, Kmart purchased Sears for \$12.3 billion, and created the nation's third largest retailer, behind Wal-Mart and Home Depot.
- a. vertical merger
  - b. joint venture
  - c. horizontal merger
  - d. acquisition

ANS: D                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

60. If Smith Steel buys Kennedy Iron Ore to assure itself of a constant flow of ore, this is an example of a \_\_\_\_\_.
- a. domestic company
  - b. conglomerate company
  - c. subsidiary corporation
  - d. vertical merger

ANS: D                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

61. Tropical Corp., a fruit distributor, has purchased a warehouse that will reduce the costs of leasing warehouse space. The merger that has occurred is a \_\_\_\_\_.
- a. joint venture
  - b. horizontal merger
  - c. vertical merger
  - d. conglomerate merger

ANS: B                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

62. The Chivas Corp., a real estate development firm, buys 80 percent of the stock of Dependable Plate Glass. This purchase is an example of a \_\_\_\_\_.  
a. vertical merger  
b. horizontal merger  
c. joint venture  
d. conglomerate merger

ANS: D                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

63. If Donovan Corp. buys the majority of Strong Corp.'s stock and Strong is in the same business, then the purchase is called a \_\_\_\_\_.  
a. vertical merger  
b. horizontal merger  
c. conglomerate merger  
d. joint venture

ANS: B                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

64. The merger of Chemical Bank and Chase Manhattan Bank was an example of a \_\_\_\_\_.  
a. conglomerate merger  
b. horizontal merger  
c. vertical merger  
d. joint venture

ANS: B                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

65. Assume that Microsoft decides to invest some of its excess cash by acquiring fellow Seattle-based Starbucks Coffee. This would be a \_\_\_\_\_.  
a. conglomerate merger  
b. vertical merger  
c. horizontal merger  
d. joint venture

ANS: A                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

66. When Daimler Benz merged with Chrysler, this was an example of a \_\_\_\_\_.  
a. conglomerate merger  
b. vertical merger  
c. horizontal merger  
d. joint venture

ANS: C                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

67. Which type of merger is likely to receive the closest examination by the Federal Trade Commission?  
a. Conglomerate merger  
b. Vertical merger  
c. Horizontal merger  
d. Joint venture

ANS: C                      DIF: 3                      REF: When Businesses Join Forces

NAT: AACSB Reflective Thinking

MSC: AP

68. Pharmaceutical giants Merck and Amgen decide to form another company to develop new drugs. Both companies own 50 percent of the new company. This is an example of a \_\_\_\_\_.
- a. joint venture
  - b. subsidiary
  - c. horizontal merger
  - d. vertical merger

ANS: A

DIF: 2

REF: When Businesses Join Forces

NAT: AACSB Reflective Thinking

MSC: AP

69. When a government unit owns and operates an organization, the arrangement is known as \_\_\_\_\_.
- a. private ownership
  - b. a cooperative
  - c. public ownership
  - d. employee ownership

ANS: C

DIF: 1

REF: Public and Collective Ownership

NAT: AACSB Analytic

MSC: KN

70. A \_\_\_\_\_ would most likely be publicly owned.
- a. trucking company
  - b. cable television company
  - c. movie theater
  - d. city sewer system

ANS: D

DIF: 2

REF: Public and Collective Ownership

NAT: AACSB Reflective Thinking

MSC: AP

71. Alternatives to private ownership include \_\_\_\_\_.
- a. public ownership and collective ownership
  - b. employee ownership and foreign corporations
  - c. foreign corporations and public ownership
  - d. employee ownership and collective ownership

ANS: A

DIF: 2

REF: Public and Collective Ownership

NAT: AACSB Analytic

MSC: KN

72. Ben is the owner of a small mushroom farm in Pennsylvania. Ben would like to join with other growers to create an organization that will promote and distribute mushrooms. The form of ownership that would be most suited for the growers is the \_\_\_\_\_.
- a. cooperative
  - b. government-owned collective
  - c. open corporation
  - d. joint venture

ANS: A

DIF: 2

REF: Public and Collective Ownership

NAT: AACSB Reflective Thinking

MSC: AP

73. A credit union is a(n) \_\_\_\_\_.
- a. employee-owned corporation
  - b. privately held corporation
  - c. cooperative
  - d. public corporation

ANS: C                      DIF: 1                      REF: Public and Collective Ownership  
NAT: AACSB Reflective Thinking                      MSC: AP

74. Ace Hardware is a \_\_\_\_\_ of independently owned hardware stores, whose owners join forces to collectively operate all or part of the functions in their industry.
- franchisee
  - cooperative
  - franchisor
  - corporate charter

ANS: B                      DIF: 2                      REF: Public and Collective Ownership  
NAT: AACSB Reflective Thinking                      MSC: AP

### TRUE/FALSE

1. The vast majority of firms have fewer than 100 employees.

ANS: T                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

2. Less than one in four small businesses are owned by a woman.

ANS: F                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Diversity                      MSC: KN

3. Retailers and service firms with annual sales of less than \$6 million are considered to be small businesses.

ANS: T                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

4. Any firm with fewer than 1,000 employees is considered a small business.

ANS: F                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

5. Traditionally, most non-farming small businesses have been concentrated in the retailing and service industries.

ANS: T                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

6. For small business owners who work in a customer's home, wearing a uniform isn't important since customers expect a more casual appearance.

ANS: F                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Reflective Thinking                      MSC: AP

7. Partners and shareholders, not individual farmers, now own the majority of U.S. farms.

ANS: F                      DIF: 2                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

8. Seventy-five percent of small businesses operate from the owner's residence.

ANS: F                      DIF: 1                      REF: Most Businesses are Small Businesses  
NAT: AACSB Analytic                      MSC: KN

9. Small business owners can now use online auction sites, such as eBay, to sell their goods to the public.

ANS: T                      DIF: 2                      REF: Most Businesses are Small Businesses  
NAT: AACSB Technology                      MSC: AP

10. Many of today's most successful high-technology companies began as small businesses.

ANS: T                      DIF: 1                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Technology                      MSC: KN

11. Small businesses are more likely than large firms to employ the oldest workers, but not the youngest ones.

ANS: F                      DIF: 2                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Diversity                      MSC: KN

12. Microsoft, Yahoo! and Google began as small businesses.

ANS: T                      DIF: 2                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Technology                      MSC: AP

13. Outsourcing from a large corporation has a negative effect on small businesses.

ANS: F                      DIF: 2                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Analytic                      MSC: KN

14. Small businesses are more likely than larger businesses to outsource such functions as accounting and legal services.

ANS: T                      DIF: 2                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Analytic                      MSC: AP

15. Innovation is a major small business advantage.

ANS: T                      DIF: 1                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Analytic                      MSC: KN

16. In a typical year, small firms develop ten times as many product innovations per employee as larger firms.

ANS: F                      DIF: 3                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Analytic                      MSC: KN

17. Twentieth century innovations developed by small businesses include everything from computers to zippers.

ANS: T                      DIF: 3                      REF: Contributions of Small Business to the Economy  
NAT: AACSB Analytic                      MSC: KN

18. More than half of all small businesses fail within one year.

ANS: F                      DIF: 1                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

19. Entrepreneurs often assume they will acquire needed business expertise on the job.

ANS: T                      DIF: 1                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

20. Securing adequate financing is a major problem for most small businesses.

ANS: T                      DIF: 1                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

21. An advantage of starting a home-based business is the lack of start-up expenses.

ANS: F                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

22. Small businesses rely more heavily on debt financing than do larger firms.

ANS: F                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

23. Most small business owners realize that personal credit cards carry excessive interest rates, and they will avoid using them to finance their business.

ANS: F                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Reflective Thinking                      MSC: AP

24. Taxes and government regulations are more significant issues for large businesses than for small businesses.

ANS: F                      DIF: 1                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

25. Excessive government paperwork can cause some small businesses to close down.

ANS: T                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

26. Small businesses are required to pay state and local taxes, but not workers' compensation and Social Security.

ANS: F                      DIF: 2                      REF: Why Small Businesses Fail  
NAT: AACSB Analytic                      MSC: KN

27. The most important task for an entrepreneur is to create a business plan.

ANS: T                      DIF: 1                      REF: Increasing the Likelihood of Small-Business  
Success  
NAT: AACSB Analytic                      MSC: KN



28. Financial forecasts are almost impossible to determine for new businesses, and therefore omitted from the initial business plan.
- ANS: F                      DIF: 1                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
29. A business plan should include principal résumés.
- ANS: T                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
30. The Small Business Administration (SBA) is the major lending source for small businesses needing additional funds.
- ANS: F                      DIF: 1                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
31. A Small Business Administration (SBA) microloan is available up to \$35,000.
- ANS: T                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
32. Small Business Investment Company (SBIC) loans are actually government loans funneled through a private organization.
- ANS: F                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
33. Microloans from the Small Business Administration (SBA) may be used to purchase everything from equipment to real estate.
- ANS: F                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
34. Another form of small business assistance is a set-aside program, whereby a percentage of government contracts must be designated to qualifying small businesses.
- ANS: T                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN
35. Most business incubators are run by venture capital firms.
- ANS: F                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Analytic                      MSC: KN

36. The number of women-owned and minority-owned businesses are growing much faster than the overall growth in U.S. businesses.

ANS: T                      DIF: 2                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Diversity                      MSC: KN

37. Hispanics are the nation's largest group of minority business owners.

ANS: T                      DIF: 1                      REF: Increasing the Likelihood of Small-Business Success  
NAT: AACSB Diversity                      MSC: KN

38. One important advantage of franchising is its ability to provide business expertise for relatively inexperienced franchisees.

ANS: T                      DIF: 1                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

39. Franchising began just after the end of World War II.

ANS: F                      DIF: 1                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

40. Total U.S. sales from franchising currently are pushing \$2 trillion annually.

ANS: T                      DIF: 2                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

41. A small business owner who sells the goods or services of the supplier is known as the franchisor.

ANS: F                      DIF: 1                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

42. Although franchises are more likely than independent businesses to succeed, many franchises go out of business.

ANS: T                      DIF: 2                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

43. Franchising reduces the amount of time and effort the franchiser needs to expand.

ANS: T                      DIF: 1                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

44. One of the main advantages of buying a franchise is name recognition.

ANS: T                      DIF: 1                      REF: The Franchise Alternative  
NAT: AACSB Analytic                      MSC: KN

45. Franchise fees and future payments tend to be a relatively small cost of owning and operating a franchise.

ANS: F                      DIF: 2                      REF: The Franchise Alternative

NAT: AACSB Analytic

MSC: KN

46. Auto dealerships define the category of franchise as much as McDonald's and 7-11.

ANS: T

DIF: 2

REF: The Franchise Alternative

NAT: AACSB Reflective Thinking

MSC: AP

47. Corporations are the most common forms of business organization.

ANS: F

DIF: 1

REF: Alternatives for Organizing a Business

NAT: AACSB Analytic

MSC: KN

48. Sole proprietorships are easy to form and dissolve.

ANS: T

DIF: 1

REF: Alternatives for Organizing a Business

NAT: AACSB Analytic

MSC: KN

49. A sole proprietor faces unlimited liability.

ANS: T

DIF: 1

REF: Alternatives for Organizing a Business

NAT: AACSB Analytic

MSC: KN

50. Partnerships are most often created by professionals such as doctors and lawyers.

ANS: T

DIF: 1

REF: Alternatives for Organizing a Business

NAT: AACSB Analytic

MSC: KN

51. In a partnership, each partner is liable for the business-related debts of the other partners.

ANS: T

DIF: 1

REF: Alternatives for Organizing a Business

NAT: AACSB Analytic

MSC: KN

52. Large businesses must be organized as corporations.

ANS: F

DIF: 1

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

53. Class action lawsuits filed against drug manufacturers are filed against the corporations themselves, not the owners of these corporations.

ANS: T

DIF: 2

REF: Organizing and Operating a Corporation

NAT: AACSB Reflective Thinking

MSC: AP

54. Owners of corporations may owe personal income taxes on dividends, which are paid from after-tax corporate profits. This is an example of double taxation.

ANS: T

DIF: 2

REF: Organizing and Operating a Corporation

NAT: AACSB Reflective Thinking

MSC: AP

55. A corporation operating outside its state of incorporation is known as a domestic corporation.

ANS: F

DIF: 2

REF: Organizing and Operating a Corporation

NAT: AACSB Analytic

MSC: KN

56. Most of the major U.S. companies are incorporated in New York.

ANS: F                      DIF: 1                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

57. Each state mandates a specific procedure for incorporating a business.

ANS: T                      DIF: 1                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

58. Preferred shareholders typically have voting rights.

ANS: F                      DIF: 1                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

59. Owners of common stock are the last to receive any dividends.

ANS: T                      DIF: 1                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

60. The CEO of a corporation must also serve as the chair of the board of directors.

ANS: F                      DIF: 1                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

61. To be considered employee-owned, a firm's workers must own all of the outstanding stock.

ANS: F                      DIF: 2                      REF: Organizing and Operating a Corporation  
NAT: AACSB Reflective Thinking                      MSC: AP

62. Not-for-profit corporations do not issue stock certificates and are exempt from paying income taxes.

ANS: T                      DIF: 3                      REF: Organizing and Operating a Corporation  
NAT: AACSB Analytic                      MSC: KN

63. A vertical merger occurs between firms at different levels in the distribution channel.

ANS: T                      DIF: 1                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

64. The American Airlines purchase of TWA is an example of a horizontal merger.

ANS: T                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

65. The AOL Time Warner merger is an example of a conglomerate merger.

ANS: F                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

66. Horizontal mergers are formed to ensure adequate supplies of raw materials.

ANS: F                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

67. The stock of an acquiring company often falls in price when making the acquisition.

ANS: T                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

68. A conglomerate merger is a merger of unrelated firms.

ANS: T                      DIF: 1                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

69. A joint venture is a partnership between companies formed for a specific purpose. The companies share the investment, the risk, and the rewards.

ANS: T                      DIF: 1                      REF: When Businesses Join Forces  
NAT: AACSB Analytic                      MSC: KN

70. Joint ventures are not ideal for international companies due to logistics and conflicting business laws.

ANS: F                      DIF: 2                      REF: When Businesses Join Forces  
NAT: AACSB Reflective Thinking                      MSC: AP

71. Certain functions, such as municipal water supply, are considered to be so important to public welfare they are not entrusted to private ownership.

ANS: T                      DIF: 1                      REF: Public and Collective Ownership  
NAT: AACSB Analytic                      MSC: KN

72. A good example of a cooperative is Blue Diamond Almond Growers.

ANS: T                      DIF: 1                      REF: Public and Collective Ownership  
NAT: AACSB Analytic                      MSC: KN

73. Some cooperatives are created so that small producers can be more competitive in the marketplace.

ANS: T                      DIF: 1                      REF: Public and Collective Ownership  
NAT: AACSB Analytic                      MSC: KN

74. Commercial banks are considered to be financial cooperatives.

ANS: F                      DIF: 2                      REF: Public and Collective Ownership  
NAT: AACSB Reflective Thinking                      MSC: AP

## Chapter 6—Starting Your Own Business: The Entrepreneurship Alternative

### MATCHING

*Complete the following using the terms listed.*

- a. entrepreneur
- b. globalization
- c. angel investor
- d. targeted employment area
- e. debt financing
- f. business incubators
- g. equity financing
- h. classic entrepreneur
- i. social entrepreneur
- j. seed capital
- k. venture capitalist
- l. skunkworks
- m. pacing
- n. information technology

1. The significant increase of international marketing and sales is a result of \_\_\_\_.
2. \_\_\_\_ is the initial funding needed to launch a new venture.
3. A person who identifies a business opportunity and allocates available resources to tap that market is a(n) \_\_\_\_.
4. A(n) \_\_\_\_ is an individual who lends money to new ventures in exchange for an equity stake.
5. A \_\_\_\_ recognizes a societal problem and uses business principles to develop innovative solutions. .
6. A(n) \_\_\_\_ seeks a profitable opportunity in the private enterprise system and takes the necessary risks to set up and operate a business.
7. To secure \_\_\_\_, entrepreneurs exchange a share of ownership in their company for money supplied by one or more investors.
8. One way that federal, state, and local governments support new ventures is \_\_\_\_.
9. \_\_\_\_ are business firms or groups of individuals who invest in new and growing firms.
10. A \_\_\_\_ is rural area or an area that has experienced an unemployment rate of at least 150 percent of the national average. These areas are targeted for immigrants with visas wishing to start a new venture.
11. \_\_\_\_ helps entrepreneurs work quickly and efficiently, provide attentive customer service, increase sales, and project professional images.
12. A(n) \_\_\_\_ program consists of company-initiated projects that focus on a few products and technologies in which the firm sees potential for rapid marketplace winners.
13. When entrepreneurs use \_\_\_\_, they borrow money from banks, finance companies, and credit card companies, which must be repaid.
14. A(n) \_\_\_\_ program is initiated by an employee who conceives an idea and then recruits resources from within the firm.

- |                     |        |
|---------------------|--------|
| 1. ANS: B           | DIF: 2 |
| NAT: AACSB Analytic |        |
| 2. ANS: J           | DIF: 2 |
| NAT: AACSB Analytic |        |
| 3. ANS: H           | DIF: 2 |
| NAT: AACSB Analytic |        |

- |  |
|--|
| REF: The Environment for Entrepreneurs |
| MSC: KN                                |
| REF: Starting a New Venture            |
| MSC: KN                                |
| REF: Categories of Entrepreneurs       |
| MSC: KN                                |

4.	ANS: C	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
5.	ANS: I	DIF: 2	REF: Categories of Entrepreneurs
	NAT: AACSB Analytic		MSC: KN
6.	ANS: A	DIF: 2	REF: What is an Entrepreneur
	NAT: AACSB Analytic		MSC: KN
7.	ANS: G	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
8.	ANS: F	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
9.	ANS: K	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
10.	ANS: D	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
11.	ANS: N	DIF: 2	REF: The Environment for Entrepreneurs
	NAT: AACSB Technology		MSC: KN
12.	ANS: M	DIF: 2	REF: Intrapreneurship
	NAT: AACSB Analytic		MSC: KN
13.	ANS: E	DIF: 2	REF: Starting a New Venture
	NAT: AACSB Analytic		MSC: KN
14.	ANS: L	DIF: 2	REF: Intrapreneurship
	NAT: AACSB Analytic		MSC: KN

## ESSAY

- How do entrepreneurs differ from small business managers?

ANS:

Entrepreneurship refers to the process of starting a new business. An entrepreneur is someone who seeks a profitable opportunity and takes the necessary risks to set up and operate a business. However, the skills necessary to launch a business are not the same as those necessary to manage a business on an ongoing basis. Conversely, managers are employees who direct the efforts of others to achieve an organization's goals. They use the organization's resources to accomplish their work. Entrepreneurs pursue their own goals and take the initiative to find and organize the resources they need to start their ventures.

DIF: 3

REF: What is an Entrepreneur

NAT: AACSB Reflective Thinking

MSC: AP

- Describe the three categories of entrepreneurs. Which entrepreneur actually starts his or her own company?

ANS:

The three categories of entrepreneurs are classic entrepreneurs, serial entrepreneurs, and social entrepreneurs. A classic entrepreneur identifies a business opportunity and allocates available resources to tap into that market. A serial entrepreneur starts one business, runs it, and then starts and runs additional businesses in succession. A social entrepreneur recognizes a societal problem and uses business principles to develop innovative solutions. . Of the four categories, only classic entrepreneurs actually start their own companies.

PTS: 1

DIF: 3

REF: Categories of Entrepreneurs

NAT: AACSB Reflective Thinking

MSC: AP

3. Discuss each of the four motives frequently cited as major reasons why people become entrepreneurs.

ANS:

The four main reasons for becoming an entrepreneur include a desire to be your own boss, succeed financially, attain job security, and improve the quality of your life. The desire for self-management is the motivation that drives many entrepreneurs. Additionally, many people start their ventures with the specific goal of creating profitable businesses and reaping their financial rewards since entrepreneurs are wealth creators. Other people start their own businesses to create their own job security. With downsizing in the last decade, many people see little job security in working for others. Entrepreneurship is an attractive career option for people seeking to improve their quality of life.

DIF: 3

REF: Reasons to Choose Entrepreneurship as a Career Path

NAT: AACSB Reflective Thinking

MSC: AP

4. Explain how an entrepreneur ensures job security. Do entrepreneurs have less job security than corporate employees?

ANS:

An entrepreneur's job depends on the decisions of customers and investors, as well as the cooperation and commitment of the entrepreneur's own employees. Conversely, a corporate employee's job depends on the decisions of his or her employer. Working for a company is no guarantee of job security due to downsizing and mergers. However, running your own business doesn't guarantee job security either because of the financial risks.

DIF: 2

REF: Reasons to Choose Entrepreneurship as a Career Path

NAT: AACSB Reflective Thinking

MSC: AP

5. List the four factors that have contributed to the boom in entrepreneurship.

ANS:

The four factors are (1) globalization; (2) education; (3) information technology; and (4) economic and demographic trends.

DIF: 1

REF: The Environment for Entrepreneurs

NAT: AACSB Analytic

MSC: KN

6. Explain the obstacles entrepreneurs face in other countries when starting a business.

ANS:

Obstacles include government regulations, high taxes, and political attitudes that favor big business, such as government regulations.

DIF: 3

REF: The Environment for Entrepreneurs

NAT: AACSB Reflective Thinking

MSC: AP

7. Explain how information technology has contributed to the boom in entrepreneurship.

ANS:

Information technology helps entrepreneurs work quickly and efficiently, provide attentive customer service, increase sales, and project professional images. It has allowed small companies to better compete with larger companies. Information technology has also created opportunities for franchises.



DIF: 2                      REF: The Environment for Entrepreneurs  
NAT: AACSB Technology                      MSC: AP

8. List recent demographic and economic trends that create opportunities for entrepreneurs to market new goods and services.

ANS:

Recent trends that have created new marketing opportunities include the aging U.S. population, the emergence of Hispanics as the nation's largest ethnic group, and the growth of two-income families. Entrepreneurs take advantage of such trends to offer everything from retirement homes to grocery delivery services for busy families.

DIF: 3                      REF: The Environment for Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

9. List the eight major characteristics of an entrepreneur.

ANS:

The eight major characteristics of an entrepreneur are (1) vision; (2) high energy level; (3) need to achieve; (4) self-confidence and optimism; (5) tolerance for failure; (6) creativity; (7) tolerance for ambiguity; and (8) internal locus of control.

DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

10. Does tolerance for failure mean that entrepreneurs love to take risks?

ANS:

Entrepreneurs are not gamblers because they constantly look for strategies they believe will work, and they are quick to make adjustments whenever a strategy appears not to be working. Entrepreneurs are willing to take risks, but do whatever they can to manage the risks they have to take.

DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Distinguish between venture capitalists and angel investors.

ANS:

Venture capitalists are business organizations or groups of private individuals that invest in new or growing firms. They expect return rates of more than 30 percent within five years or fewer. Angel investors are wealthy individuals who invest money directly in new ventures in exchange for equity. In contrast to venture capitalists, angel investors focus primarily on new ventures.

DIF: 3                      REF: Starting a New Venture                      NAT: AACSB Analytic  
MSC: KN

12. Explain the difference between skunkworks and pacing programs.

ANS:

A skunkworks project is a program initiated by an employee who conceives of an idea and then recruits resources from within the firm to turn it into a commercial product. A pacing program is a set of projects initiated by the company that focuses on a few products and technologies in which the firm sees the potential for rapid marketplace growth.

## MULTIPLE CHOICE

1. A person who seeks a profitable opportunity and takes the necessary risks to set up and operate a business is a(n) \_\_\_\_\_.  
a. wealth generator  
b. entrepreneur  
c. stockholder  
d. business executive with a plan

ANS: B                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

2. Which of the following best describes an entrepreneur?  
a. The owner of a small business  
b. An individual who creates a new business product  
c. The investors in a new business  
d. A risk taker who seeks a profitable opportunity

ANS: D                      DIF: 2                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

3. Jada has decided to start her own business in the construction of luxury homes and hopes to expand into several markets. Jada would be classified as a(n) \_\_\_\_\_.  
a. manager  
b. entrepreneur  
c. female executive  
d. venture capitalist

ANS: B                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking                      MSC: AP

4. Keith created a publishing company in his home office and is looking to maximize his growth potential. Keith is an example of a(n) \_\_\_\_\_.  
a. small-business owner  
b. manager  
c. entrepreneur  
d. intrapreneur

ANS: C                      DIF: 2                      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking                      MSC: AP

5. Maryna just purchased a BP gas station. Which of the following best describes her career?  
a. Small business owner  
b. Entrepreneur  
c. Manager  
d. Employee

ANS: A                      DIF: 2                      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking                      MSC: AP

6. Entrepreneurs and small-business owners both have all of the following qualities EXCEPT:  
a. Desire to succeed.

- b. Creative energy..
- c. Drive towards a goal.
- d. Growth of their company.

ANS: D                      DIF: 3  
NAT: AACSB Analytic

REF: What is an Entrepreneur  
MSC: KN

7. Umit has purchased several different businesses and hires people to run them. Umit is a(n) \_\_\_\_\_.
- a. manager
  - b. entrepreneur
  - c. business owner
  - d. venture capitalist

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: What is an Entrepreneur  
MSC: AP

8. What makes entrepreneurs unique is their overwhelming desire to \_\_\_\_\_.
- a. become successful
  - b. utilize their creative energy
  - c. manage employees
  - d. make their business grow

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: What is an Entrepreneur  
MSC: KN

9. Saul is the CEO of Summertime, Inc., a publicly traded corporation. He uses the resources of the firm to expand and diversify into winter sports areas. Saul would be classified as a(n) \_\_\_\_\_.
- a. manager
  - b. entrepreneur
  - c. stockholder
  - d. venture capitalist

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: What is an Entrepreneur  
MSC: AP

10. Dell Computer founder Michael Dell and Microsoft co-founder Bill Gates are two well-known examples of \_\_\_\_\_.
- a. social entrepreneurs
  - b. change agents
  - c. atypical entrepreneurs
  - d. classic entrepreneurs

ANS: D                      DIF: 1  
NAT: AACSB Reflective Thinking

REF: Categories of Entrepreneurs  
MSC: AP

11. Franz and Arlene had an idea for a different type of ice cream. They struggled to open their own small business, and later, to expand production and distribution. Their products are distributed nationwide and their sales continue to increase. Franz and Arlene are examples of \_\_\_\_\_.
- a. classic entrepreneurs
  - b. serial entrepreneurs
  - c. social entrepreneurs
  - d. change agents

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Categories of Entrepreneurs  
MSC: AP

12. \_\_\_\_\_ are pioneers of innovations that benefit humanity.

- a. Classic entrepreneurs
- b. Change agents
- c. Atypical entrepreneurs
- d. Social entrepreneurs

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Categories of Entrepreneurs  
MSC: KN

13. A very small business loan, called a \_\_\_\_\_, will help impoverished people become self-sufficient

- a. mega loan
- b. microloan
- c. small loan
- d. regular loan

ANS: B              DIF: 2              REF:  
NAT: AACSB Reflective Thinking

Reasons to Choose Entrepreneurship as a Career Path  
MSC: AP

14. Studies indicate that approximately \_\_\_\_\_ percent of Americans run their own business.

- a. 25
- b. 50
- c. 12
- d. 75

ANS: C              DIF: 2              REF:  
NAT: AACSB Analytic

Reasons to Choose Entrepreneurship as a Career Path  
MSC: KN

15. Entrepreneurship is very strong among \_\_\_\_\_, two-thirds of whom desire to start and run their own business.

- a. high school students
- b. retired seniors
- c. recent college graduates
- d. middle-aged workers

ANS: A              DIF: 2              REF:  
NAT: AACSB Analytic

Reasons to Choose Entrepreneurship as a Career Path  
MSC: KN

16. The primary reasons people become entrepreneurs include all EXCEPT which one of the following reasons?

- a. To be one's own boss
- b. To become a financial success
- c. To create employment opportunities for other people
- d. To create one's own job security

ANS: C              DIF: 2              REF:  
NAT: AACSB Analytic

Reasons to Choose Entrepreneurship as a Career Path  
MSC: KN

17. Collin works for a large interior design business, but he feels the company is headed in the wrong creative direction and management is not appreciative of his ideas. Collin is most likely to become an entrepreneur in order to \_\_\_\_\_.

- a. become his own boss
- b. obtain job security
- c. succeed financially

d. improve his quality of life

ANS: A      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Reflective Thinking      MSC: AP

18. Financial success \_\_\_\_\_.

- a. plays little role in motivating people to become entrepreneurs
- b. is virtually guaranteed if people work hard enough starting their own businesses
- c. rarely results from starting a business
- d. is part of the appeal of becoming an entrepreneur

ANS: D      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Reflective Thinking      MSC: AP

19. Dina worries about layoffs and downsizing. She is thinking of starting a consulting business primarily because she can \_\_\_\_\_.

- a. become her own boss
- b. increase her job security
- c. guarantee her financial success
- d. enjoy a higher quality of life

ANS: B      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Reflective Thinking      MSC: AP

20. Susan left her management job with a large company to start her own business because, in her words, "They wanted work and family separated, but I wanted them integrated." Susan started her own business to \_\_\_\_\_.

- a. become her own boss
- b. create something new
- c. improve her quality of life
- d. have job security

ANS: C      DIF: 1      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Reflective Thinking      MSC: AP

21. Lifestyle entrepreneurs can use \_\_\_\_\_ to enable reduced work hours and a more relaxed lifestyle.

- a. technology
- b. hard work
- c. employees
- d. numerous clients

ANS: A      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Technology      MSC: AP

22. Which of the following has contributed the LEAST to the boom in entrepreneurship?

- a. Information technology
- b. Demographic and economic trends
- c. Education
- d. The rise of service industries

ANS: D      DIF: 2      REF: The Environment for Entrepreneurs  
NAT: AACSB Analytic      MSC: KN

23. \_\_\_\_\_ percent of the fastest-growing small companies in the U.S. have international sales.

- a. Less than 10
- b. Between 10 and 25

- c. Between 25 and 50
- d. Over 50

ANS: C                      DIF: 3  
NAT: AACSB Analytic

REF: The Environment for Entrepreneurs  
MSC: KN

24. Which of the following countries has the highest level of total entrepreneurial activity?
- a. Thailand
  - b. United Kingdom
  - c. United States
  - d. Japan

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Environment for Entrepreneurs  
MSC: KN

25. Concerning education and entrepreneurs, all of the following statements are correct EXCEPT:
- a. Hundreds of colleges and universities offer classes in entrepreneurship.
  - b. Some colleges and universities sponsor business plan contests.
  - c. Colleges and universities cannot allow students to start their own businesses due to liability issues.
  - d. Some colleges and universities offer entrepreneurship courses outside the usual business curriculum.

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: The Environment for Entrepreneurs  
MSC: KN

26. Information technology can help entrepreneurs in all of the following ways EXCEPT by \_\_\_\_\_.
- a. providing tools to help them compete
  - b. providing improved customer service
  - c. working quickly and efficiently
  - d. providing strategic alliances

ANS: D                      DIF: 2  
NAT: AACSB Technology

REF: The Environment for Entrepreneurs  
MSC: KN

27. Which demographic/economic trend has increased the opportunities for entrepreneurs?
- a. Aging population
  - b. Increase in wages
  - c. Surplus of college graduates
  - d. Steady interest rates

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Environment for Entrepreneurs  
MSC: KN

28. Entrepreneurs possess all of the following traits EXCEPT \_\_\_\_\_.
- a. tolerance for ambiguity
  - b. creativity
  - c. lack of tolerance for failure
  - d. self-confidence

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Characteristics of Entrepreneurs  
MSC: KN

29. An overall idea for how to convert a business idea into a success is called \_\_\_\_\_.
- a. vision
  - b. creativity

- c. internal locus of control
- d. tolerance for ambiguity

ANS: A                      DIF: 1  
NAT: AACSB Analytic

REF: Characteristics of Entrepreneurs  
MSC: KN

30. All of the following EXCEPT \_\_\_\_\_ are important characteristics of entrepreneurs.
- a. tolerance for failure
  - b. internal locus of control
  - c. tolerance for ambiguity
  - d. vision to make money

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Characteristics of Entrepreneurs  
MSC: KN

31. Which of the following persons is LEAST likely to become an entrepreneur?
- a. An inquisitive person
  - b. An intelligent person
  - c. A calm, low-energy person
  - d. A flexible person

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Characteristics of Entrepreneurs  
MSC: AP

32. Elian wants to start a business. He takes a personality test and discovers he possesses a trait that may reduce the likelihood he will succeed. Which of the following is that trait?
- a. Creativity
  - b. Tolerance for ambiguity
  - c. Vision
  - d. External locus of control

ANS: D                      DIF: 1  
NAT: AACSB Reflective Thinking

REF: Characteristics of Entrepreneurs  
MSC: AP

33. Studies indicate that the average entrepreneur works \_\_\_\_\_ per week.
- a. more than 68 hours per week
  - b. six or seven hours per day
  - c. weekends only
  - d. about 50 hours per week

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Characteristics of Entrepreneurs  
MSC: KN

34. Paterno routinely bids on contracts even though most of the other bidders are extremely large firms. Paterno believes his company offers better service at lower prices. He is exhibiting which personality trait common in entrepreneurs?
- a. Creativity
  - b. Vision
  - c. High energy level
  - d. Self-confidence

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Characteristics of Entrepreneurs  
MSC: AP

35. Which of the following statements best describes how entrepreneurs view failure?
- a. They view failure as a learning experience.

- b. They don't worry about failing because something better always comes along.
- c. They enjoy risk and gambling.
- d. They worry that if they fail they'll never get another opportunity.

ANS: A                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

36. Jeanne desires to start her own business. Which of these characteristics will make her more likely to succeed?
- a. Tolerance for ambiguity
  - b. Cynicism
  - c. Self-effacing
  - d. Laissez-faire

ANS: A                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

37. Katherine is a successful entrepreneur. She stays close to her customers and is constantly looking for effective strategies. She is also willing to make adjustments when necessary. Katherine is demonstrating \_\_\_\_\_.
- a. internal locus of control
  - b. creativity
  - c. vision
  - d. tolerance for ambiguity

ANS: D                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

38. Logan is an entrepreneur who takes personal responsibility for the success or failure of his actions rather than believing in luck or fate. Which characteristic best describes Logan's entrepreneurial philosophy?
- a. Tolerance for failure
  - b. Internal locus of control
  - c. Need to achieve
  - d. Tolerance for ambiguity

ANS: B                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

39. Which of the following is a major advantage of buying an existing business?
- a. The chance to start a business from the ground up
  - b. You can choose your own employees and suppliers
  - c. Employees are already in place serving established customers
  - d. The chance to turn around a struggling business and generate new profits

ANS: C                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

40. Entrepreneurs rely on all of the following to fund their companies EXCEPT \_\_\_\_\_.
- a. personal savings
  - b. bank loans
  - c. loans from friends
  - d. loans from family members

ANS: B                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN



41. Kayla is opening a home health care business that she knows will do well in her community based on prior research. Although she must repay borrowed funds, Kayla chooses \_\_\_\_\_ to maintain complete control over the business without having to answer to investors or partners.
- a. debt financing
  - b. venture financing
  - c. sole proprietor financing
  - d. equity financing

ANS: A                      DIF: 3                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Michael is a successful financial advisor looking to invest thousands of dollars into a new consulting business in return for equity in the company. Michael is an example of a(n) \_\_\_\_\_.
- a. venture capitalist
  - b. entrepreneur
  - c. angel investor
  - d. change agent

ANS: C                      DIF: 3                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Enrique wants to start a new business, but his bank will not lend him the money he needs. Enrique saw an advertisement sponsored by a business organization that provides financing for promising small companies. The organization sponsoring the advertisement would be considered a(n) \_\_\_\_\_.
- a. venture capitalist
  - b. intrapreneur
  - c. franchiser
  - d. entrepreneur

ANS: A                      DIF: 3                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

44. \_\_\_\_\_ are business organizations or groups of private individuals who invest in new or growing firms.
- a. Angel investors
  - b. Entrepreneurs
  - c. Intrapreneurs
  - d. Venture capitalists

ANS: D                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

45. Lisa is trying to start a new business. A women's business network puts her in touch with an investor who is willing to invest in her company in exchange for an equity stake. This investor is a(n) \_\_\_\_\_.
- a. entrepreneur
  - b. angel investor
  - c. venture capitalist
  - d. franchiser

ANS: B                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

46. The \_\_\_\_\_ promotes the development of businesses focusing on clean energy.

- a. Environmental Protection Agency (EPA)
- b. Clean Energy Incubator (CEI)
- c. Clean Energy Agency (CEA)
- d. National Clean Energy Agency (NCEA)

ANS: B                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

47. \_\_\_\_\_ are specific geographic areas designated for economic revitalization.
- a. economic stimulus zones
  - b. investor zones
  - c. enterprise zones
  - d. commerce areas

ANS: C                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Reflective Thinking                      MSC: AP

48. Which of the following companies has the longest and best-known record of encouraging intrapreneurship?
- a. IBM
  - b. 3M
  - c. General Motors Co.
  - d. Microsoft Corporation

ANS: B                      DIF: 2                      REF: Intrapreneurship  
NAT: AACSB Analytic                      MSC: KN

49. A(n) \_\_\_\_\_ program is initiated by an employee who conceives of an idea.
- a. skunkworks
  - b. pacing
  - c. wealth creation
  - d. entrepreneurship

ANS: A                      DIF: 1                      REF: Intrapreneurship  
NAT: AACSB Analytic                      MSC: KN

50. Louis works as an artist for a major textile company and created an innovation for producing designs. The company will implement Louis's idea as part of their \_\_\_\_\_ strategy.
- a. skunkworks
  - b. pacing
  - c. seed capital
  - d. gazelles

ANS: A                      DIF: 2                      REF: Intrapreneurship  
NAT: AACSB Reflective Thinking                      MSC: AP

51. A(n) \_\_\_\_\_ program consists of company-initiated projects.
- a. skunkworks
  - b. pacing
  - c. wealth creation
  - d. entrepreneurship

ANS: B                      DIF: 1                      REF: Intrapreneurship  
NAT: AACSB Analytic                      MSC: KN

52. Car companies often initiate projects that focus on specific products and technologies in which management sees potential for success. This type of intrapreneurship is called a \_\_\_\_\_.  
a. vision assessment  
b. pacing program  
c. skunkworks program  
d. brainstorm

ANS: B                      DIF: 2                      REF: Intrapreneurship  
NAT: AACSB Reflective Thinking                      MSC: AP

### TRUE/FALSE

1. Entrepreneurs are risk takers in the private enterprise system.

ANS: T                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

2. Bill Gates was an entrepreneur when he co-founded Microsoft.

ANS: T                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Owning a business, by definition, means that you are an entrepreneur.

ANS: F                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

4. Gary owns a McDonald's franchise. He is a classic entrepreneur.

ANS: F                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking                      MSC: AP

5. Studies confirm that the personality traits common to entrepreneurs are very similar to those required for managerial success.

ANS: F                      DIF: 2                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

6. The entrepreneurial spirit can exist even in large companies.

ANS: T                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

7. Classic entrepreneurs identify business opportunities and allocate available resources to tap into those markets.

ANS: T                      DIF: 1                      REF: What is an Entrepreneur  
NAT: AACSB Analytic                      MSC: KN

8. David began a lumber company and ran it for five years. Afterward, he started up a paper company, and then an office company. David is a serial change agent.

ANS: F                      DIF: 2                      REF: What is an Entrepreneur

NAT: AACSB Reflective Thinking      MSC: AP

9. 3M continually seeks to develop innovative products by encouraging entrepreneurship among its employees.

ANS: T      DIF: 2      REF: What is an Entrepreneur  
NAT: AACSB Reflective Thinking      MSC: AP

10. Social entrepreneurs recognize a societal problem and use business principles to develop innovative solutions.

ANS: T      DIF: 2      REF: Categories of Entrepreneurs  
NAT: AACSB Reflective Thinking      MSC: AP

11. Maria Montessori, the first female physician in Italy, is an example of a serial entrepreneur.

ANS: F      DIF: 2      REF: Categories of Entrepreneurs  
NAT: AACSB Reflective Thinking      MSC: AP

12. In an average month, Americans start more than 450,000 new businesses.

ANS: T      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Analytic      MSC: KN

13. People over 50 are more likely to start their own businesses than any other age group.

ANS: F      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Analytic      MSC: KN

14. Desire for self-management is the motivation that drives many entrepreneurs.

ANS: T      DIF: 1      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Analytic      MSC: KN

15. Entrepreneurs are wealth creators.

ANS: T      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Analytic      MSC: KN

16. Entrepreneurs enjoy guaranteed job security because no one can fire them.

ANS: F      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path  
NAT: AACSB Analytic      MSC: KN

17. Although entrepreneurs can reap huge profits, job seekers would be better off looking to large corporations for employment opportunities.

ANS: F      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career

Path

NAT: AACSB Reflective Thinking      MSC: AP

18. Isaac started his own business because he was tired of worrying about corporate downsizing despite his highly positive annual reviews. This is a common motivation for becoming an entrepreneur.

ANS: T      DIF: 1      REF: Reasons to Choose Entrepreneurship as a Career Path

NAT: AACSB Reflective Thinking      MSC: AP

19. Quality of life is rarely a motivation for becoming an entrepreneur since entrepreneurs work long hours.

ANS: F      DIF: 2      REF: Reasons to Choose Entrepreneurship as a Career Path

NAT: AACSB Reflective Thinking      MSC: AP

20. There has never been a better time to be an entrepreneur.

ANS: T      DIF: 1      REF: The Environment for Entrepreneurs

NAT: AACSB Reflective Thinking      MSC: AP

21. Growth in entrepreneurship is a worldwide phenomenon.

ANS: T      DIF: 1      REF: The Environment for Entrepreneurs

NAT: AACSB Analytic      MSC: KN

22. Compared with other countries, the United States has a relatively low level of entrepreneurship activity.

ANS: F      DIF: 1      REF: The Environment for Entrepreneurs

NAT: AACSB Analytic      MSC: KN

23. There is very little government can do to encourage entrepreneurship.

ANS: F      DIF: 1      REF: The Environment for Entrepreneurs

NAT: AACSB Reflective Thinking      MSC: AP

24. Many colleges and universities have begun programs in entrepreneurship.

ANS: T      DIF: 1      REF: The Environment for Entrepreneurs

NAT: AACSB Analytic      MSC: KN

25. Students who graduate from entrepreneurship programs are three times as likely to be self-employed.

ANS: T      DIF: 2      REF: The Environment for Entrepreneurs

NAT: AACSB Analytic      MSC: KN

26. Growing numbers of franchises are plunging into the information technology industry.

ANS: T      DIF: 2      REF: The Environment for Entrepreneurs

NAT: AACSB Technology      MSC: AP

27. The aging of the U.S. population has made it more difficult for entrepreneurs to find opportunities.

ANS: F                      DIF: 1                      REF: The Environment for Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

28. Jamal recently launched his grocery delivery service. He is taking advantage of an economic trend that has increased the opportunities for entrepreneurs.

ANS: T                      DIF: 2                      REF: The Environment for Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

29. A successful entrepreneur is a visionary.

ANS: T                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

30. Generally, entrepreneurs do not have a high energy level.

ANS: F                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

31. Successful entrepreneurs have a high need to achieve.

ANS: T                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

32. As a rule, entrepreneurs believe in their ability to succeed.

ANS: T                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

33. Some entrepreneurs have such confidence that they see what they want to see, and while this can be an asset, it can also be a limitation.

ANS: T                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

34. Often entrepreneurs are not afraid of failure because there is little chance that they will fail.

ANS: F                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

35. Entrepreneurs are not easily discouraged from a setback or failure.

ANS: T                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

36. Entrepreneurs generally aren't very creative people, just hard working and focused on specific problems.

ANS: F                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

37. Entrepreneurs can tolerate the uncertainties associated with starting a new business.

ANS: T                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

38. Entrepreneurs take credit for their successes, but often blame external conditions for their failures.

ANS: F                      DIF: 2                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Analytic                      MSC: KN

39. People should not attempt to convert their hobbies into a business, since something that makes a person happy rarely turns into a successful business.

ANS: F                      DIF: 1                      REF: Characteristics of Entrepreneurs  
NAT: AACSB Reflective Thinking                      MSC: AP

40. Obtaining financing for an existing business is easier than it is for most start-up companies.

ANS: T                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

41. The franchising concept eliminates risk for a new entrepreneur.

ANS: F                      DIF: 1                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

42. In the past, most entrepreneurs started their ventures without creating formal business plans.

ANS: T                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

43. A large percentage of start-ups raise seed capital through banks.

ANS: F                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

44. Banks cannot research an entrepreneur's personal credit history when making lending decisions.

ANS: F                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

45. A new popular trend for debt financing of new ventures is credit cards and lines of credit.

ANS: T                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

46. Equity financing may benefit an entrepreneur with a good idea and skills, but little or no money.

ANS: T                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

47. Venture capitalists rarely take an equity stake in businesses in which they invest their funds.

ANS: F                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

48. Angel investors seek out successful businesses with established profits.

ANS: F                      DIF: 2                      REF: Starting a New Venture  
NAT: AACSB Analytic                      MSC: KN

49. Entrepreneurial environments created within companies can help firms retain valuable employees who might otherwise leave to start their own businesses.

ANS: T                      DIF: 2                      REF: Intrapreneurship  
NAT: AACSB Analytic                      MSC: KN

50. When a 3M employee created Post-it notes for the corporation, 3M greatly benefited from this skunkworks project.

ANS: T                      DIF: 2                      REF: Intrapreneurship  
NAT: AACSB Reflective Thinking                      MSC: AP



### MATCHING

*Complete the following using the terms listed.*

- a. blogs
  - b. electronic data interchange
  - c. conversion rate
  - d. click-through rate
  - e. B2C
  - f. search marketing
  - g. podcasts
  - h. Secure Sockets Layers
  - i. firewall
  - j. extranet
  - k. e-business
  - l. B2B
  - m. electronic bulletin board
  - n. channel conflicts
  - o. private exchange
  - p. Web-to-store shoppers
  - q. electronic wallet
  - r. phishing
  - s. Web host
- 
1. \_\_\_\_\_ consists of public and private keys that are used to encrypt information and verify the identity of senders and receivers.
  2. \_\_\_\_\_ are Web pages that serve as publicly accessible personal journals for individuals or organizations.
  3. Companies that pay online search engines to have their Web sites or ads pop up after certain words are entered into a search engine are utilizing \_\_\_\_\_.
  4. \_\_\_\_\_ is computer-to-computer exchange of invoices, purchase orders, price quotations, and other information between buyers and sellers.
  5. With \_\_\_\_\_, bloggers can prepare a video recording on their computers and post it to a Web site, from which it can be downloaded to any MP3 player.
  6. \_\_\_\_\_ describes a wide-range of online business activities that use Internet technology, such as virtual shopping carts.
  7. A(n) \_\_\_\_\_ is a secure network used for e-business and is accessible through the firm's Web site by external customers, suppliers, or other authorized users.
  8. \_\_\_\_\_ refers to selling directly to consumers over the Internet.
  9. The percentage of visitors to a Web site who make a purchase is called the \_\_\_\_\_.
  10. The percentage of online users that click on a Web banner ad is referred to as the \_\_\_\_\_.
  11. A(n) \_\_\_\_\_ is an electric barrier between a company's internal network and the Internet, which limits access into and out of the network.
  12. A(n) \_\_\_\_\_ is a form of online communication via "announcements" that center on a specific topic or area of interest.
  13. \_\_\_\_\_ refers to the use of the Internet for business transactions between organizations.
  14. \_\_\_\_\_ favor the Internet primarily as a research tool and time-saving device for retail purchases made in stores.
  15. E-business disputes among producers, wholesalers, and retailers are called \_\_\_\_\_.

16. A(n) \_\_\_\_\_ is a secure Web site where a company and its suppliers share data related to e-business, from product design through order delivery.
17. A(n) \_\_\_\_\_ is a computer data file at an e-business site's checkout that contains electronic cash, credit card information, owner identification, and address.
18. \_\_\_\_\_ is a high-tech scam that uses email or pop-up messages claiming to be from familiar businesses asking readers to "update" account information using their credit card numbers or bank accounts.
19. A(n) \_\_\_\_\_, such as Yahoo!, can place a company's Web site online for little money while delivering a huge audience.

1. ANS: H	DIF: 2	REF: Online Shopping and B2C E-Business
NAT: AACSB Technology		MSC: KN
2. ANS: A	DIF: 2	REF: Using the Web's Communication Function
NAT: AACSB Technology		MSC: KN
3. ANS: F	DIF: 2	REF: Using the Web's Communication Function
NAT: AACSB Technology		MSC: KN
4. ANS: B	DIF: 2	REF: Business-to-Business (B2B) E-Business
NAT: AACSB Technology		MSC: KN
5. ANS: G	DIF: 2	REF: Using the Web's Communication Function
NAT: AACSB Technology		MSC: KN
6. ANS: K	DIF: 2	REF: What Is E-Business?
NAT: AACSB Technology		MSC: KN
7. ANS: J	DIF: 2	REF: Business-to-Business (B2B) E-Business
NAT: AACSB Technology		MSC: KN
8. ANS: E	DIF: 2	REF: Online Shopping and B2C E-Business
NAT: AACSB Technology		MSC: KN
9. ANS: C	DIF: 2	REF: Managing a Web Site
NAT: AACSB Technology		MSC: KN
10. ANS: D	DIF: 2	REF: Managing a Web Site
NAT: AACSB Technology		MSC: KN
11. ANS: I	DIF: 2	REF: E-Business Challenges
NAT: AACSB Technology		MSC: KN
12. ANS: M	DIF: 2	REF: Using the Web's Communication Function
NAT: AACSB Technology		MSC: KN
13. ANS: L	DIF: 2	REF: Business-to-Business (B2B) E-Business
NAT: AACSB Technology		MSC: KN
14. ANS: P	DIF: 2	REF: Managing a Web Site
NAT: AACSB Technology		MSC: KN
15. ANS: N	DIF: 2	REF: E-Business Challenges
NAT: AACSB Technology		MSC: KN
16. ANS: O	DIF: 2	REF: Business-to-Business (B2B) E-Business
NAT: AACSB Technology		MSC: KN
17. ANS: Q	DIF: 2	REF: Online Shopping and B2C E-Business
NAT: AACSB Technology		MSC: KN
18. ANS: R	DIF: 2	REF: E-Business Challenges
NAT: AACSB Technology		MSC: KN
19. ANS: S	DIF: 2	REF: Managing a Web Site
NAT: AACSB Technology		MSC: KN

## ESSAY

1. Distinguish between corporate Web sites and marketing Web sites.

ANS:

Corporate Web sites are designed to increase the firm's visibility, promote their offerings, and provide information. Marketing Web sites are also designed to communicate information and build customer relationships, but the main purpose of marketing Web sites is to increase purchases by site visitors.

DIF: 2

REF: What Is E-Business?

NAT: AACSB Technology

MSC: KN

2. What is e-business? List the major forms of business-to-business communication and transactions.

ANS:

E-business is the process of selling goods and services through Internet-based exchanges of data. It includes product information; ordering, invoicing, and payment processes; and customer service. In a B2B context, e-business uses Internet technology to conduct transactions between two organizations via extranets, private exchanges, electronic exchanges, and e-procurement.

DIF: 3

REF: What Is E-Business?

NAT: AACSB Technology

MSC: KN

3. Discuss the characteristics of the typical online buyer. How are these characteristics changing, and what is the potential impact on the types of products sold online?

ANS:

The typical online buyer is urban, young, and affluent. However, online shoppers are beginning to look more like offline shoppers. As these trends continue, the types of products sold online will also change. For example, as online shoppers get older, online sales of pharmaceuticals will likely increase. However, online sales of some products have reached a plateau. One example is travel.

DIF: 2

REF: Online Shopping and B2C E-Business

NAT: AACSB Technology

MSC: AP

4. Why is the development of safe payment systems important to the future growth of e-commerce? What are some of the safe payment systems currently in use?

ANS:

Consumers will be reluctant to shop online if they believe that confidential financial information, including credit card numbers, will not be secure if sent over the Internet. In response, companies have developed a number of secure payment systems for e-commerce. Virtually all online retailers encrypt personal and financial information making it difficult for unauthorized persons to obtain the information. Electronic wallets are secured computer data files that contain credit card information, owner identification, and addresses, so that users are not required to type and send this information every time they make a purchase. Additionally, most major companies involved in e-business use Secure Sockets Layer technology, an industry-wide standard for secure Internet payment transactions.

DIF: 3

REF: Online Shopping and B2C E-Business

NAT: AACSB Technology

MSC: AP

5. List the major challenges regarding e-commerce for both consumers and businesses.

ANS:

Consumers are concerned about protecting their privacy and being victimized by Internet fraud. They're also frustrated with unreliable and hard-to-use Web sites and annoyed over inconveniences of scheduling deliveries and returning merchandise. Businesses are concerned about potential conflicts with business partners, as well as difficulty in measuring the effectiveness of Internet-based promotion.

DIF: 2  
MSC: KN

REF: E-Business Challenges

NAT: AACSB Technology

6. Assume a manufacturer wants to sell products directly online, in addition to selling them through traditional retailers. What are some issues the manufacturer should consider?

ANS:

If the manufacturer sells its own products, it may compete with some of its usual partners. Retailers usually have their own Web sites, in addition to brick and mortar sites, and may not want their suppliers competing with them for sales. If the manufacturer goes ahead, it runs the risk of damaging relationships with its usual partners. The manufacturer must carefully weigh the benefits of these relationships with the benefits of selling online.

DIF: 2

REF: E-Business Challenge

NAT: AACSB Communication | AACSB Technology

MSC: AP

7. How do companies utilize online communities to advance their objectives? List some additional forms of Web-based promotion.

ANS:

Online communities are groups of people who share common interests. They can take several forms, such as Internet discussion groups and electronic bulletin boards. Companies use these communities to communicate and obtain valuable feedback from customers and other partners. Additional Web-based promotions include blogs, banner ads, pop-up ads, search marketing, pre-roll video ads and online coupons.

DIF: 3

REF: Using the Web's Communication Function

NAT: AACSB Communication | AACSB Technology

MSC: AP

8. Explain the difference between banner ads, pop-up ads, pre-roll video ads, and search marketing.

ANS:

Banner ads are small messages placed in high-visibility areas of frequently visited Web sites. A pop-up ad is a separate window that pops up containing an advertising message. Pre-roll video ads are short video clips that run as soon as a web page loads. Search marketing is an arrangement where a firm pays a search engine a fee to ensure that the firm's listing appears toward the top of the search results.

DIF: 2

REF: Using the Web's Communication Function

NAT: AACSB Technology

MSC: KN

9. List the steps involved in developing a successful Web site.

ANS:

Before designing a Web site, a company must first determine what they want to achieve with the site, such as brand awareness or retail purposes. Other important decisions include who should create, host, and manage the site; how to promote it; and how much funding to allocate. The site should be informative, up-to-date, and contain visually appealing content. Additionally, management must develop ways to measure how well a site accomplishes its objectives through profitability, click-through rates, and conversion rates.

DIF: 3                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

10. Explain the difference between click-through rates and conversion rates.

ANS:

Click-through rates are the percentages of viewers who, when presented with a banner ad, click on it. Conversion rates are the percentage of Web site visitors who actually make purchases.

DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

11. Explain display advertising.

ANS:

These ads are designed to reach targeted audiences and are the equivalent of glossy magazine ads or television commercials. Many consider display ads to be the future of Internet advertising.

DIF: 3                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: AP

## MULTIPLE CHOICE

1. Today, approximately \_\_\_\_\_ percent of Americans access the Internet at home, school, work, or public-access sites.
- 10
  - 25
  - 40
  - 75

ANS: D                      DIF: 1                      REF: What Is E-Business?  
NAT: AACSB Technology                      MSC: KN

2. Worldwide, the number of Internet users is most nearly \_\_\_\_\_ billion.
- 0.1
  - 0.5
  - 4
  - 1.2

ANS: D                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Technology                      MSC: KN

3. The word “e-tailing” is another term for \_\_\_\_\_.
- smart cards
  - virtual storefronts
  - browser cookies

d. encryption

ANS: B                      DIF: 3  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

4. The business-to-business exchange of data using compatible software is called \_\_\_\_\_.  
a. e-tailing  
b. intranet  
c. extranet  
d. electronic data interchange

ANS: D                      DIF: 3  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

5. E-business can be divided into all of the following categories EXCEPT:  
a. human resource management  
b. virtual storefronts  
c. email and instant messaging  
d. gathering demographic and product information

ANS: A                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

6. Price auctions on eBay are an example of \_\_\_\_\_.  
a. e-business  
b. communication  
c. information  
d. entertainment

ANS: A                      DIF: 1  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

7. Rufina designs jewelry and created a Web site to sell the items from her home in Texas. How far can she potentially expand her business?  
a. She can only accept local orders since she's not part of a larger business.  
b. She can accept orders from all over the world.  
c. She can only accept domestic orders since her Web site isn't equipped for international exchanges.  
d. She can sell internationally, but she would need authority from U.S. customs.

ANS: B                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

8. Craig wants to purchase a used car on eBay. By placing a new bid, he is negotiating for the price of the car with the seller, as well as other bidders. This transaction is utilizing the \_\_\_\_\_ aspect of e-business.  
a. personalization  
b. interactivity  
c. right-time and integrated marketing  
d. cost savings

ANS: B                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

9. When a customer wants to purchase a book online, companies such as Amazon and Barnes & Noble provide the book when and where the customer wants it. This type of e-business capability is known as \_\_\_\_\_.
- a. cost savings
  - b. personalization
  - c. right-time and integrated marketing
  - d. global reach

ANS: C

DIF: 3

REF: What Is E-Business?

NAT: AACSB Technology

MSC: AP

10. Nabisco's \_\_\_\_\_ Web site provides detailed information regarding brands and promotions, but online visitors are not able to purchase products such as Ritz crackers or Oreo cookies.
- a. marketing
  - b. intranet
  - c. extranet
  - d. corporate

ANS: D

DIF: 2

REF: What Is E-Business?

NAT: AACSB Technology

MSC: AP

11. Best Buy's \_\_\_\_\_ Web site offers basic company information, but primarily includes an online store selling everything from appliances to computer games.
- a. extranet
  - b. corporate
  - c. marketing
  - d. intranet

ANS: C

DIF: 2

REF: What Is E-Business?

NAT: AACSB Technology

MSC: AP

12. By some estimates, close to \_\_\_\_\_ percent of all e-commerce activity consists of business-to-business transactions.
- a. 90
  - b. 25
  - c. 50
  - d. 10

ANS: A

DIF: 3

REF: Business-to-Business (B2B) E-Business

NAT: AACSB Technology

MSC: KN

13. Companies utilize all of the following business-to-business tools EXCEPT \_\_\_\_\_.
- a. electronic data interchange
  - b. extranets
  - c. e-procurement
  - d. electronic bulletin boards

ANS: D

DIF: 2

REF: Business-to-Business (B2B) E-Business

NAT: AACSB Technology

MSC: KN

14. One of the reasons Wal-Mart has become the market leader in retailing is the company's use of \_\_\_\_\_, which provides computer-to-computer exchanges of invoices, purchase orders, price quotations and other information between buyers and sellers.
- a. intranets
  - b. electronic data interchange

- c. private exchanges
- d. e-procurement

ANS: B                      DIF: 3  
NAT: AACSB Technology

REF: Business-to-Business (B2B) E-Business  
MSC: AP

15. When a company wants to share e-business data with its suppliers, they often establish \_\_\_\_\_, which relays information on everything from product design through order delivery.
- a. e-procurement
  - b. intranets
  - c. private exchanges
  - d. electronic data interchange

ANS: C                      DIF: 3  
NAT: AACSB Technology

REF: Business-to-Business (B2B) E-Business  
MSC: AP

16. Online retail sales, known as e-tailing, now account for what percentage of total sales in the United States?
- a. 22 percent
  - b. 4 percent
  - c. 82 percent
  - d. 57 percent

ANS: B                      DIF: 3  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

17. All of the following are examples of e-commerce tools EXCEPT \_\_\_\_\_.
- a. charge-card approval systems
  - b. electronic shopping carts
  - c. extranets
  - d. bots

ANS: C                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

18. Concerning e-commerce, all of the following statements are correct EXCEPT \_\_\_\_\_.
- a. a Web presence can be used to build brand awareness.
  - b. only one customer can shop on a website a time.
  - c. the Internet allows for one-on-one communication with customers.
  - d. almost anything can be purchased online today.

ANS: B                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: AP

19. Which of the following companies operates the world's largest apparel Web site?
- a. Lands' End
  - b. The Gap
  - c. The Limited
  - d. J. Crew

ANS: A                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

20. Which of the following categories' online sales have reached a plateau?
- a. Music
  - b. Airline tickets



- c. Prescription drugs
- d. Cosmetics and fragrances

ANS: B                      DIF: 3  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

21. \_\_\_\_\_ are search programs that check hundreds of sites, gather information, and bring it back to the sender.
- a. Bots
  - b. Authentication Servers
  - c. Private Keys
  - d. Electronic Storefronts

ANS: A                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

22. According to consumer surveys, one of the main reasons customers shop online is the \_\_\_\_\_.
- a. ease of online ordering
  - b. better selection
  - c. personalization
  - d. security of online ordering

ANS: C                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: KN

23. Sandra's store sells consumer electronics on its Web site. In order to ensure consumer security, Sandra utilizes \_\_\_\_\_ technology to encrypt information and verify the identity of senders and receivers.
- a. spam filter
  - b. Secure Sockets Layer
  - c. firewall
  - d. quick response

ANS: B                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: AP

24. Jake purchases several items from an online retailer. He has shopped at the site previously, and when he checks out, he only has to enter a password to complete the order since the Web site has securely stored his personal and financial information. Jake is using \_\_\_\_\_.
- a. electronic cash
  - b. an encryption system
  - c. an electronic wallet
  - d. a smart card

ANS: C                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: AP

25. Which organization's mission is it to enhance payment account data security online?
- a. PCI (payment card industry) Security Standards Council
  - b. The National Online Payment Organization (NOPO)
  - c. Data Security Online (DCS)
  - d. Discover Card

ANS: A                      DIF: 2  
NAT: AACSB Technology

REF: Online Shopping and B2C E-Business  
MSC: AP

26. All of the following are challenges facing e-commerce EXCEPT \_\_\_\_\_.

- a. privacy concerns
- b. protection of intellectual property
- c. getting people to go online
- d. measuring the effectiveness of Internet promotions

ANS: C                      DIF: 1                      REF: E-Business Challenges  
 NAT: AACSB Technology | AACSB Ethics                      MSC: KN

27. The top concern of Internet users is \_\_\_\_\_.
- a. privacy
  - b. fraud
  - c. protection of intellectual property
  - d. the frequency of traffic jams

ANS: A                      DIF: 2                      REF: E-Business Challenges  
 NAT: AACSB Technology | AACSB Ethics                      MSC: KN

28. When a company prominently displays the “TRUSTe” logo on its Web site, the company is \_\_\_\_\_.
- a. complying with government regulations regarding Internet legislation
  - b. building customers’ trust
  - c. pledging to remove all pop-up ads from its site
  - d. assuring customers they will be protected against identity theft and Internet fraud

ANS: B                      DIF: 3                      REF: E-Business Challenges  
 NAT: AACSB Technology | AACSB Ethics                      MSC: AP

29. The Children's Online Privacy Protection Act requires that Web sites directed at children younger than \_\_\_\_\_ obtain \_\_\_\_\_ before collecting any personal information on the child.
- a. 18; verifiable parental consent
  - b. 18; written parental consent
  - c. 13; verifiable parental consent
  - d. 13; written parental consent

ANS: C                      DIF: 3                      REF: E-Business Challenges  
 NAT: AACSB Technology | AACSB Ethics                      MSC: KN

30. The electronic barrier between a company's internal network and the Internet is called a(n) \_\_\_\_\_.
- a. extranet
  - b. firewall
  - c. encryption system
  - d. private network

ANS: B                      DIF: 1                      REF: E-Business Challenges  
 NAT: AACSB Technology                      MSC: KN

31. What is the leading source of online fraud?
- a. Travel arrangements
  - b. Investments
  - c. Online auctions
  - d. Retail purchases

ANS: C                      DIF: 2                      REF: E-Business Challenges  
 NAT: AACSB Technology | AACSB Ethics                      MSC: KN

32. An estimated \_\_\_\_\_ of online shoppers abandon their shopping carts before they check out.
- a. three-fourths

- b. one-quarter
- c. one-half
- d. two-thirds

ANS: C                      DIF: 3                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: KN

33. Since online purchases do not require a signature, \_\_\_\_\_ bear the majority of responsibility in fraud cases.
- a. the banks that issue the credit cards
  - b. credit card companies
  - c. consumers
  - d. merchants

ANS: D                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: AP

34. Which of the following statements is correct?
- a. Pure-play online retailers are generally more profitable than bricks and mortar retailers with online operations.
  - b. Dot-coms have lower costs than bricks and mortar retailers with online operations.
  - c. Retailers that combine online selling with a brick and mortar operation are gaining ground over dot-com retailers.
  - d. Dot-com retailers have more user-friendly Web sites than brick and mortar retailers with online operations.

ANS: C                      DIF: 3                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: AP

35. Nordstrom's department store offers its online customers \_\_\_\_\_, which include detailed directions on returning merchandise, preprinted shipping labels, and even paying the shipping cost for returns.
- a. reverse logistics
  - b. satisfaction guarantees
  - c. replacement programs
  - d. transporting instructions

ANS: A                      DIF: 3                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: AP

36. A manufacturer is thinking about launching an online site for e-commerce. Which of the following statements is correct?
- a. The manufacturer must be careful not to damage existing relationships with channel partners such as retailers.
  - b. The manufacturer will have to build a new distribution center.
  - c. The manufacturer will have to reduce its prices in order to compete.
  - d. Selling online will open up a profitable new market to both the manufacturer and retail partners.

ANS: A                      DIF: 3                      REF: E-Business Challenges  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

37. \_\_\_\_\_ is the most common use of the Internet.
- a. Communication
  - b. Information gathering and sharing
  - c. Entertainment

d. E-commerce

ANS: A                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

38. Many Internet users utilize \_\_\_\_\_ to automatically eliminate junk email from being sent to their "in" box.
- a. spam filters
  - b. private exchange
  - c. encryption
  - d. quick response

ANS: A                      DIF: 1                      REF: Using the Web's Communication Function  
NAT: AACSB Technology                      MSC: KN

39. \_\_\_\_\_ can be used to post shared answers to common questions without having to respond to individual inquiries.
- a. Instant messaging
  - b. Emails
  - c. Portals
  - d. Electronic bulletin boards

ANS: D                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

40. Alex has kidney disease and wants to connect online with other people in the same situation to share ideas and information. Which online community would be ideal for his purpose?
- a. blog
  - b. newsgroup
  - c. electronic bulletin board
  - d. podcast

ANS: B                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

41. Rachael writes a daily blog about the adventures of her dog, Ginger. Since other dog lovers read her blog, Rachael has incorporated \_\_\_\_\_, which allow readers to edit her Web site with pictures and stories of their own dogs.
- a. podcasts
  - b. RSS
  - c. user-to-user software
  - d. wikis

ANS: D                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

42. \_\_\_\_\_ are separate windows that contain advertising messages. Since many Internet users dislike them, software has been created to block these forms of Web-based promotions.
- a. Wikis
  - b. Banner ads
  - c. Pop-up ads
  - d. Spam emails

ANS: C                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Technology                      MSC: KN

43. Kelly designs and manufactures personalized stationery. Since she's competing with larger stores, she pays a monthly fee to Google to ensure her company's Web site is listed prominently when anyone types the word "stationery" into a Google search. This type of Web-based promotion is known as \_\_\_\_\_.
- a. search marketing
  - b. banner advertising
  - c. electronic storefronts
  - d. user-to-user marketing

ANS: A                      DIF: 2  
NAT: AACSB Technology

REF: Using the Web's Communication Function  
MSC: AP

44. What is the first question to consider when developing a Web site?
- a. How much money will it cost to develop and maintain the site?
  - b. What is the purpose of the Web site?
  - c. What should our domain name be?
  - d. What should our site contain?

ANS: B                      DIF: 2  
NAT: AACSB Technology

REF: Managing a Web Site  
MSC: KN

45. When selecting a domain name for a commercial Web site, all of the following statements are correct EXCEPT \_\_\_\_\_.
- a. for U.S. companies, the last part of the domain name identifies an affiliation category.
  - b. choosing a domain name is an important decision.
  - c. the rights to a domain name can be sold to another company.
  - d. there are infinite domain names available with the dot-com suffix.

ANS: D                      DIF: 2  
NAT: AACSB Technology

REF: Managing a Web Site  
MSC: KN

46. A Japanese company's Web site would have a domain name ending in \_\_\_\_\_.
- a. .com
  - b. .edu
  - c. .jp
  - d. .org

ANS: C                      DIF: 1  
NAT: AACSB Technology

REF: Managing a Web Site  
MSC: KN

47. When it comes to the contents of a Web site, which of the following is LEAST important?
- a. Utilizing the latest advanced graphics software
  - b. Relevance to viewers
  - c. Ease of access
  - d. Updating regularly

ANS: A                      DIF: 1  
NAT: AACSB Technology

REF: Managing a Web Site  
MSC: AP

48. What is the minimum cost for developing an effective e-business Web site?
- a. \$100
  - b. \$1,000
  - c. \$10,000
  - d. \$100,000

ANS: C                      DIF: 2

REF: Managing a Web Site

NAT: AACSB Technology

MSC: KN

49. Lily is searching for a gift, but doesn't want to put her credit card information online. Instead, she uses the Internet as a research tool so she'll know which store to visit in person to buy the item she wants. Lily is which type of Internet user?
- a. E-procurement customer
  - b. Business-to-consumer shopper
  - c. Web-to-store shopper
  - d. Web-to-consumer shopper

ANS: C

DIF: 2

REF: Managing a Web Site

NAT: AACSB Technology

MSC: AP

50. All of the following are measures of Web site effectiveness EXCEPT \_\_\_\_\_.
- a. the cost of developing and maintaining the site
  - b. Web site traffic counts
  - c. conversion rates
  - d. revenue and profitability

ANS: A

DIF: 2

REF: Managing a Web Site

NAT: AACSB Technology

MSC: KN

51. Mario placed banner ads for his company on several Web sites. By obtaining the \_\_\_\_\_, he can determine the number of people who clicked on his banner ad and were directed to his company's Web site.
- a. electronic signatures
  - b. click-through rates
  - c. conversion rate
  - d. search marketing

ANS: B

DIF: 2

REF: Managing a Web Site

NAT: AACSB Technology

MSC: AP

52. Vanessa's company spent \$50,000 to attract 10,000 online visitors to her Web site. If the conversion rate is 5 percent, her company spent \_\_\_\_\_ to attract each customer.
- a. \$5
  - b. \$50
  - c. \$100
  - d. \$500

ANS: C

DIF: 3

REF: Managing a Web Site

NAT: AACSB Technology

MSC: AP

53. When executives at Borders want to determine the percentage of online visitors who purchase merchandise on their Web site, they calculate the \_\_\_\_\_.
- a. click-through rates
  - b. electronic shopping carts
  - c. electronic wallets
  - d. conversion rate

ANS: D

DIF: 2

REF: Managing a Web Site

NAT: AACSB Technology

MSC: AP

54. Display advertising is the online equivalent of what type of traditional advertising?
- a. television commercials
  - c. direct mailing

b. newspaper ads

d. billboards

ANS: A                      DIF: 1  
NAT: AACSB Technology

REF: Managing a Web Site  
MSC: AP

## TRUE/FALSE

1. Some surveys suggest the Web is the number one medium for new-product information -- surpassing catalogs, print ads, and trade shows.

ANS: T                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

2. Businesses rarely use blogs for marketing since blogs are associated more with personal online journals.

ANS: F                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

3. The average Internet user spends more time online than watching television.

ANS: T                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

4. Simply researching digital cameras online is not considered e-business since no purchase has been made.

ANS: F                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

5. E-business has no significant impact on government agencies and not-for-profit organizations.

ANS: F                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

6. It is estimated that online retail sales is currently more than 4 percent of total U.S. retail sales.

ANS: T                      DIF: 3  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

7. The Internet allows goods and services to be sold to customers regardless of geographic location.

ANS: T                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: KN

8. Personalization enables a company such as Dell to mass produce computers in an assembly-line fashion.

ANS: F                      DIF: 2  
NAT: AACSB Technology

REF: What Is E-Business?  
MSC: AP

9. Most businesses still do not have Web sites since they are too expensive for small companies to design and maintain.

ANS: F                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Technology                      MSC: AP

10. Rather than selling goods and services directly, corporate Web sites attempt to build customer goodwill and assist retailers in their marketing efforts.

ANS: T                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Technology                      MSC: KN

11. Always write long, detailed messages in business emails in order to avoid confusion and ambiguity in your correspondence.

ANS: F                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Communication                      MSC: AP

12. People do not expect a prompt response to business emails as they would returning a phone call.

ANS: F                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Communication                      MSC: AP

13. The primary goal of a marketing Web site is to increase purchases by online visitors.

ANS: T                      DIF: 2                      REF: What Is E-Business?  
NAT: AACSB Technology                      MSC: KN

14. Orders placed online typically contain fewer errors than handwritten ones.

ANS: T                      DIF: 2                      REF: Business-to-Business (B2B) E-Business  
NAT: AACSB Technology                      MSC: KN

15. Electronic data interchange does not require compatible hardware and software systems to exchange data over a network.

ANS: F                      DIF: 2                      REF: Business-to-Business (B2B) E-Business  
NAT: AACSB Technology                      MSC: KN

16. Extranets go beyond ordering and fulfillment processes by giving selected outsiders access to internal information.

ANS: T                      DIF: 2                      REF: Business-to-Business (B2B) E-Business  
NAT: AACSB Technology                      MSC: KN

17. A private exchange is the next generation extranet.

ANS: T                      DIF: 2                      REF: Business-to-Business (B2B) E-Business  
NAT: AACSB Technology                      MSC: KN

18. An electronic exchange is a Web-based marketplace that caters to consumers in a particular industry.

ANS: F                      DIF: 2                      REF: Business-to-Business (B2B) E-Business  
NAT: AACSB Technology                      MSC: KN

19. Almost 20 percent of all U.S. retail sales occur online.



ANS: F                      DIF: 1                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

20. Some airlines, such as Southwest Airlines, sell more than half of their tickets online.

ANS: T                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

21. Online banking is a significant participant of e-business.

ANS: T                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

22. Online customers with broadband technology do not shop any more or less than customers with dial-up connections.

ANS: F                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

23. When measuring the percentage of a particular group using the Internet, older Americans have increased their online presence faster than younger Americans.

ANS: T                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

24. Books and music remain the top-selling products purchased on the Internet.

ANS: F                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

25. Many products actually cost less online.

ANS: T                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

26. The nature of online ordering prevents companies from creating a personalized shopping experience.

ANS: F                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: AP

27. For security reasons, an electronic wallet can retain the names and addresses of customers, but not their credit card information.

ANS: F                      DIF: 2                      REF: Online Shopping and B2C E-Business  
NAT: AACSB Technology                      MSC: KN

28. Research indicates that the primary concern of Internet users is identity theft.

ANS: F                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology | AACSB Ethics                      MSC: KN

29. Electronic signatures can be utilized for any business venture except legal contracts.

ANS: F                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: KN

30. Consumers have no assurances that their personal information will remain private if a company is sold or goes out of business.

ANS: T                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology | AACSB Ethics                      MSC: KN

31. Federal laws restrict the collection of Internet information on children without their parents' consent.

ANS: T                      DIF: 1                      REF: E-Business Challenges  
NAT: AACSB Technology | AACSB Ethics                      MSC: KN

32. A properly designed and maintained firewall is impossible to breach.

ANS: F                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: AP

33. Online stock trading is the most common source of Internet fraud.

ANS: F                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology | AACSB Ethics                      MSC: KN

34. Legitimate companies may ask customers for personal information via email on occasion.

ANS: F                      DIF: 1                      REF: E-Business Challenges  
NAT: AACSB Technology | AACSB Ethics                      MSC: KN

35. Steven abandons his online shopping cart before checking out. His behavior is typical of about one half of online shoppers.

ANS: T                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: AP

36. Online retailers that began without a history of traditional stores or catalogs have had a more difficult time succeeding than online retailers with a history of traditional stores and catalogs.

ANS: T                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: KN

37. Many manufacturers sell only specialty products on their Web sites in order to avoid channel conflicts with valuable retailers.

ANS: T                      DIF: 2                      REF: E-Business Challenges  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

38. The reason people go online most often is to purchase goods.

ANS: F                      DIF: 1                      REF: E-Business Challenges  
NAT: AACSB Technology                      MSC: KN

39. The volume of email now exceeds regular postal mail by an estimated ten to one.

ANS: T                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

40. While newsgroups resemble announcements, electronic bulletin boards are more like two-way conversations.

ANS: F                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

41. RSS (Really Simple Syndication) software allows blog readers to be continually up-to-date on new material posted on their favorite blogs.

ANS: T                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

42. Podcasts are essentially video blogs.

ANS: T                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

43. Blogs are too personal and informal for corporations to use as a marketing tool.

ANS: F                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

44. Most companies are comfortable with the idea of employees writing about work life on the Internet, as long as it's done responsibly.

ANS: F                      DIF: 3                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: AP

45. Banner ads are the most common form of Internet advertising.

ANS: T                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

46. Many experts consider search marketing to be the most cost effective form of Web-based advertising.

ANS: T                      DIF: 2                      REF: Using the Web's Communication Function  
NAT: AACSB Communication | AACSB Technology                      MSC: KN

47. The first question to ask when developing a Web site is how much money should be invested to establish and maintain the site.

ANS: F                      DIF: 1                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

48. In order to alleviate overcrowding with dot-com Web sites, new suffixes are being added to domain names, such as .museum and .info.

ANS: T                      DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

49. For companies outside the United States, the last part of the domain name identifies the country of origin.

ANS: T                      DIF: 1                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

50. For most smaller companies, hiring a specialized Web designer would be cost prohibitive when developing a Web site.

ANS: F                      DIF: 1                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

51. It costs at least \$10,000 to put a professional e-business Web site online.

ANS: T                      DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

52. When judging Web sites, success generally means the same thing to most businesses -- using the Web to increase profits.

ANS: F                      DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: AP

53. Click-through rates have soared in accordance with the rising popularity of the Internet.

ANS: F                      DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: AP

54. Selling online advertising has become an extremely lucrative source of e-business revenue.

ANS: F                      DIF: 2                      REF: Managing a Web Site  
NAT: AACSB Technology                      MSC: KN

## Chapter 8—Management, Leadership, and the Internal Organization

### MATCHING

*Complete the following using the terms listed.*

- a. corporate culture
  - b. management
  - c. organization
  - d. strategic planning
  - e. departmentalization
  - f. vision
  - g. delegation
  - h. matrix
  - i. span of management
  - j. objectives
  - k. centralization
  - l. chain of command
  - m. SWOT analysis
  - n. contingency planning
  - o. non-programmed decision
  - p. autocratic leaders
  - q. free-rein leaders
  - r. mission statement
  - s. competitive differentiation
  - t. operational planning
1. \_\_\_\_\_ is the process of achieving organizational objectives through people and other resources.
  2. \_\_\_\_\_ determines the primary objectives of an organization, and then acting and allocating resources to achieve those objectives.
  3. The perception of marketplace needs and methods an organization can use to satisfy them is referred to as \_\_\_\_\_.
  4. \_\_\_\_\_, or project management, links employees from different parts of the organization to work together on specific projects.
  5. Guideposts by which managers define the organization's desired performance in such areas as profitability, customer service, growth, and employee satisfaction are referred to as \_\_\_\_\_.
  6. A company that emphasizes \_\_\_\_\_ retains decision making at the top of the management hierarchy.
  7. A(n) \_\_\_\_\_ is an organized approach to assessing a company's internal strengths and weaknesses and its external opportunities and threats.
  8. An organization's system of principles, beliefs, and values is called \_\_\_\_\_.
  9. A(n) \_\_\_\_\_ is a structured grouping of people working together to achieve common goals.
  10. \_\_\_\_\_ is the process of dividing work activities into units within the organization.
  11. The act of assigning activities to subordinates is called \_\_\_\_\_.
  12. The number of subordinates a manager supervises is referred to as the \_\_\_\_\_.
  13. \_\_\_\_\_ is the set of relationships that indicates who gives direction to whom and who reports to whom.
  14. \_\_\_\_\_ allows a firm to resume operations quickly and smoothly after a crisis, while openly communicating with the public.
  15. People who make decisions on their own without consulting subordinates are \_\_\_\_\_.
  16. Determining the unique combination of a company's abilities and approaches is called \_\_\_\_\_.
  17. A(n) \_\_\_\_\_ involves a complex and unique problem or opportunity with important consequences for the organization.
  18. A(n) \_\_\_\_\_ is a written explanation of an organization's business intentions and aims.

19. People who believe in minimal supervision of subordinates are \_\_\_\_\_.
  20. \_\_\_\_\_ creates the detailed standards that guide implementation of tactical plans. This includes choosing specific work targets and assigning employees to carry out plans.
- 
- |                     |        |                                     |
|---------------------|--------|-------------------------------------|
| 1. ANS: B           | DIF: 2 | REF: What Is Management?            |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 2. ANS: D           | DIF: 2 | REF: Importance of Planning         |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 3. ANS: F           | DIF: 2 | REF: What Is Management?            |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 4. ANS: H           | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 5. ANS: J           | DIF: 2 | REF: The Strategic Planning Process |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 6. ANS: K           | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 7. ANS: M           | DIF: 2 | REF: The Strategic Planning Process |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 8. ANS: A           | DIF: 2 | REF: Corporate Culture              |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 9. ANS: C           | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 10. ANS: E          | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 11. ANS: G          | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 12. ANS: I          | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 13. ANS: L          | DIF: 2 | REF: Organizational Structures      |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 14. ANS: N          | DIF: 2 | REF: Importance of Planning         |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 15. ANS: P          | DIF: 2 | REF: Managers as Leaders            |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 16. ANS: S          | DIF: 2 | REF: The Strategic Planning Process |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 17. ANS: O          | DIF: 2 | REF: Managers as Decision Makers    |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 18. ANS: R          | DIF: 2 | REF: The Strategic Planning Process |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 19. ANS: Q          | DIF: 2 | REF: Managers as Leaders            |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 20. ANS: T          | DIF: 2 | REF: Importance of Planning         |
| NAT: AACSB Analytic |        | MSC: KN                             |

## ESSAY

1. Identify each layer of management and explain its corresponding functions.

ANS:

The management pyramid is made up of three layers: top, middle, and supervisory managers. Top managers make key decisions, such as the vision of the corporation or whether or not to purchase a new company or products. Middle management directs and implements these key decisions. Supervisors are responsible for day-to-day decisions and for assigning non-managerial people their work schedules and evaluating their performance.

DIF: 3                      REF: What is Management?  
NAT: AACSB Analytic                      MSC: KN

2. Describe the three skills necessary for managerial success.

ANS:

The three basic skills are human skills, technical skills, and conceptual skills. Human skills are needed at all levels of management and allow managers to work effectively with and through people. These skills include leadership, motivation, and communication. Technical skills are most critical for first-line supervisors since they interact with non-managerial employees who must operate and explain machinery and computers. Conceptual skills are particularly important for top management who must develop long-range plans for the future. It allows them to see the overall importance of each function of the company.

DIF: 3                      REF: What Is Management?  
NAT: AACSB Communication                      MSC: KN

3. Explain the role of vision and ethical standards in business success.

ANS:

Vision is the ability to perceive the needs of the marketplace and develop methods for satisfying those needs. Vision helps new businesses pinpoint the actions needed to take advantage of opportunities. In an existing firm, a clear vision of company purpose helps unify the actions of separated divisions, keeps customers satisfied, and sustains growth. Setting high ethical standards helps a firm survive and be successful over the long term. Behaving ethically places an organization's constituents -- those to whom it is responsible -- at the top of its priorities. It also goes beyond avoiding wrongdoing to encouraging, motivating, and inspiring employees.

DIF: 2                      REF: Setting a Vision and Ethical Standards                      NAT: AACSB Reflective Thinking  
MSC: AP

4. List the four types of planning in order from the general to the most specific.

ANS:

The four types of planning are strategic planning, tactical planning, operational planning, and contingency planning.

DIF: 1                      REF: Importance of Planning                      NAT: AACSB Analytic  
MSC: KN

5. How does strategic planning differ from tactical planning? Give an example of each type of planning.

ANS:

Strategic planning is the most far-reaching level of planning. It is the process of determining the primary objectives of the organization and then acting and allocating resources to achieve those objectives. PepsiCo's decision to sell its fast-food restaurants and concentrate on soft drinks and snack foods was the result of a strategic planning process. Tactical planning, by contrast, involves implementing the activities specified by strategic plans. Tactical plans guide the current and near-term activities required to implement overall strategies. An example of tactical planning is PepsiCo's efforts to build sales by using displays that place snack foods and drinks side by side.

DIF: 3  
MSC: AP

REF: Importance of Planning

NAT: AACSB Reflective Thinking

6. Describe contingency planning and its two components.

ANS:

Contingency planning is preparing for unexpected events such as accidents, natural disasters, or sudden, severe economic downturns. Contingency planning allows a firm to resume operations quickly and smoothly after a crisis, while openly communicating with the public about the event. This planning activity involves two components: business continuation and public communication.

DIF: 2  
MSC: KN

REF: Importance of Planning

NAT: AACSB Analytic

7. List in order the steps involved in the strategic planning process.

ANS:

In order, the steps are: (1) define the company's mission; (2) assess the company's competitive position; (3) set organizational objectives; (4) create strategies for competitive differentiation; (5) implement the strategy into action; and, (6) evaluate results and refine the plan.

DIF: 2  
MSC: KN

REF: The Strategic Planning Process

NAT: AACSB Analytic

8. Define SWOT analysis and explain its purpose in the strategic planning process.

ANS:

SWOT is an acronym for strengths, weaknesses, opportunities, and threats. SWOT analysis is one method of assessing a company's competitive position. Strengths and weaknesses can be examined in each area of the company including finance, marketing, information technology, and human resources. Opportunities and threats include market growth, regulatory changes, and increased competition. SWOT analysis is useful in the strategic planning process because it forces management to look at factors both inside and outside the organization. SWOT analysis examines not only the current picture, but also necessary actions to prepare for likely future developments.

DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Strategic Planning Process

MSC: AP

9. Describe competitive differentiation. What are some common sources?

ANS:

Competitive differentiation is the unique combination of a company's abilities and approaches that sets it apart from the competition. The common sources of competitive differentiation include product innovation, technology, and employee motivation.

DIF: 2

REF: The Strategic Planning Process

NAT: AACSB Analytic



MSC: KN

10. Distinguish between programmed decisions and non-programmed decisions.

ANS:

Because programmed decisions are simple and common and recur frequently, rules and policies can be established to eliminate the time-consuming process of identifying and evaluating alternatives, as well as making new decisions each time a programmed situation occurs. By using rule and procedures to save time with programmed decisions, managers can devote more of their time to more complex non-programmed decisions.

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Analytic

MSC: KN

11. List the steps involved in the decision-making process.

ANS:

The decision-making process begins when someone recognizes a problem or opportunity, develops potential courses of action to solve the problem, evaluates the alternatives, selects and implements one of them, and assesses the outcome of the decision.

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Analytic

MSC: KN

12. Define leadership. What are some traits found in many great leaders?

ANS:

Leadership is defined as the ability to direct or inspire people to attain organizational goals. While great leaders don't share all of the same qualities, there are three common traits that many share. These are empathy (the ability to imagine oneself in another's position), self-awareness, and objectivity in dealing with others. Other common traits found in great leaders include courage, the ability to inspire others, passion, commitment, flexibility, innovation, and a willingness to experiment.

DIF: 2

REF: Managers as Leaders

NAT:

AACSB Analytic

MSC: AP

13. Distinguish between autocratic, democratic, and free-rein leadership.

ANS:

Autocratic leaders make decisions on their own without consulting employees. They reach decisions, communicate them to subordinates, and expect prompt implementation of instructions. In the middle is democratic leadership, which involves subordinates in the decision-making process. Democratic leaders are willing to delegate assignments, ask employees for suggestions, and encourage participation. At the other extreme are free-rein leaders who believe in minimal supervision, leaving most decisions to their subordinates. A free-rein leader communicates with employees frequently, as the situation warrants.

DIF: 3

REF: Managers as Leaders

NAT:

AACSB Reflective Thinking

MSC: AP

14. Define corporate culture. How is corporate culture shaped in an organization?

ANS:

Corporate culture is the shared principles, beliefs, and values supported by top management down through the organization. It is typically shaped by the founding leaders and passed from generation to generation, either informally or formally, and may be incorporated into employee training.

DIF: 2                      REF: Corporate Culture      NAT: AACSB Analytic  
MSC: KN

15. List the major forms of departmentalization and explain how management decides which form or forms to use.

ANS:

The five major forms of departmentalization are product, geography, customer, function, and process. In determining which form to use, managers consider the type of product they produce, the size of their company, their customer base, and the locations of their customers.

DIF: 3                      REF: Organizational Structures                      NAT: AACSB Reflective Thinking  
MSC: AP

16. What is meant by "span of management?" Is the growing trend toward a narrow or wide span of management? Why?

ANS:

Span of management also known as span of control refers to the number of subordinates a manager directly supervises. These subordinates are often referred to as direct reports. In recent years, a growing trend has brought wider spans of control, as companies have reduced their layers of management in order to flatten their organizational structures. In this process, they increase the decision-making responsibility they give employees.

DIF: 3                      REF: Organizational Structures                      NAT: AACSB Reflective Thinking  
MSC: AP

17. Compare the four types of organizational structures.

ANS:

The line organization establishes a direct flow of authority, known as a chain of command. This organization is effective only for the smallest businesses. Conversely, a line-and-staff organization combines the direct flow of authority of a line organization with supporting staff departments. The third organizational structure is the committee organization, which places authority with a group of individuals rather than a single manager. Finally, the matrix structure links employees from different parts of the organization to work together on specific projects.

DIF: 3                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

## **MULTIPLE CHOICE**

1. Management is the process of achieving \_\_\_\_\_ through people and other resources.
- profits
  - status
  - organizational objectives
  - societal objectives

ANS: C                      DIF: 1                      REF: What Is Management?

NAT: AACSB Analytic

MSC: KN

2. Lupe's job duties include such tasks as deciding whether or not to introduce a new product or enter a new foreign market. Lupe is most likely a member of \_\_\_\_\_ management.
- middle
  - top
  - supervisory
  - line

ANS: B

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

3. Which level of management is responsible for developing detailed procedures in order to implement the firm's strategic plans?
- Staff management
  - Top management
  - Middle management
  - Supervisory management

ANS: C

DIF: 2

REF: What Is Management?

NAT: AACSB Analytic

MSC: KN

4. Jackie is a manager who spends most of her time in day-to-day decisions assigning non-managerial employees to specific jobs. Jackie is considered a \_\_\_\_\_ manager.
- staff
  - supervisory
  - mid-level
  - technical

ANS: B

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

5. As someone moves up the managerial hierarchy, which skills become relatively less important?
- Technical skills
  - Human skills
  - Conceptual skills
  - Supervisory skills

ANS: A

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

6. Most top executives began their careers as which type of expert?
- Technical
  - Financial
  - Human relations
  - Marketing

ANS: A

DIF: 2

REF: What Is Management?

NAT: AACSB Analytic

MSC: KN

7. First-line managers interact continuously with members of the work team. Therefore, they must possess effective \_\_\_\_\_ skills.
- conceptual
  - technical
  - visionary

d. human

ANS: D

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

8. Human skills involve \_\_\_\_\_.
- directing and controlling operations
  - understanding knowledge and tools of a specific discipline
  - leading and motivating workers
  - seeing the organization as a unified whole

ANS: C

DIF: 2

REF: What Is Management?

NAT: AACSB Communication

MSC: KN

9. When Carla instructs new employees on handling customer complaints, she motivates them to respond with patience and a positive attitude. Carla has effective \_\_\_\_\_ skills.
- conceptual
  - visionary
  - intuitive
  - human

ANS: D

DIF: 2

REF: What Is Management?

NAT: AACSB Communication

MSC: AP

10. Tate, president of Progressive Graphics, is highly respected for his ability to analyze and interpret trends in the rapidly changing graphics industry. Tate has effective \_\_\_\_\_ skills.
- human relations
  - technical
  - conceptual
  - supervisory

ANS: C

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

11. Hasim is a bank manager who believes his bank should expand nationally for greater profit and efficiency. Hasim is using his \_\_\_\_\_ skills.
- supervisory
  - conceptual
  - human
  - technical

ANS: B

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

12. Conceptual skills are \_\_\_\_\_.
- not as important at the top management level
  - very important for supervisors
  - skills that allow a person to understand how all the pieces of an organization fit together to accomplish its objectives
  - very important in understanding human motivation

ANS: C

DIF: 3

REF: What Is Management?

NAT: AACSB Analytic

MSC: KN

13. Which of the four functions of management creates a well-designed road map of the actions needed to lead a company forward?

- a. Organizing
- b. Directing
- c. Controlling
- d. Planning

ANS: D

DIF: 2

REF: What Is Management?

NAT: AACSB Analytic

MSC: KN

14. Damien is working on a project where he needs to anticipate future events and conditions, as well as avoid costly mistakes. Damien is engaged in the \_\_\_\_\_ managerial function.
- a. controlling
  - b. planning
  - c. organizing
  - d. directing

ANS: B

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

15. Rosetta classifies and divides work into manageable units by determining the specific tasks necessary to introduce a new product. Rosetta is involved in the \_\_\_\_\_ managerial function.
- a. planning
  - b. organizing
  - c. directing
  - d. controlling

ANS: B

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

16. Marcus is responsible for guiding and motivating 10 other employees to accomplish various organizational objectives. Marcus handles the \_\_\_\_\_ managerial function.
- a. planning
  - b. organizing
  - c. directing
  - d. controlling

ANS: C

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

17. Ramon's job is to establish performance standards, monitor actual performance, and compare actual performance to the standards. Ramon is engaged in the \_\_\_\_\_ managerial function.
- a. organizing
  - b. directing
  - c. controlling
  - d. planning

ANS: C

DIF: 2

REF: What Is Management?

NAT: AACSB Reflective Thinking

MSC: AP

18. \_\_\_\_\_ is a perception of marketplace needs and the methods an organization can use to satisfy them.
- a. Vision
  - b. Strategic planning
  - c. Strategic management
  - d. The organizing function

ANS: A

DIF: 1

REF: Setting a Vision and Ethical Standards for the Firm

NAT: AACSB Analytic

MSC: KN

19. Kiki strongly believes that college students need credit counseling, so she begins a not-for-profit organization devoted to this need. Kiki is exhibiting \_\_\_\_\_.
- a. strategic planning
  - b. the organizing function of management
  - c. vision
  - d. strategic management

ANS: C

DIF: 2

REF: Setting a Vision and Ethical Standards for the Firm

NAT: AACSB Reflective Thinking

MSC: AP

20. What is the first step toward an organization's path to success?
- a. Financial plan
  - b. Vision
  - c. Strategic plan
  - d. Hiring the best people

ANS: B

DIF: 2

REF: Setting a Vision and Ethical Standards for the Firm

NAT: AACSB Analytic

MSC: KN

21. Generally, which type of manager needs vision the most?
- a. Supervisory managers
  - b. Staff managers
  - c. Middle managers
  - d. Members of top management

ANS: D

DIF: 1

REF: Setting a Vision and Ethical Standards for the Firm

NAT: AACSB Reflective Thinking

MSC: AP

22. Vision should be \_\_\_\_\_ and \_\_\_\_\_.
- a. rigid; focused
  - b. rigid; broad
  - c. focused; flexible
  - d. flexible; broad

ANS: C

DIF: 3

REF: Setting a Vision and Ethical Standards for the Firm

NAT: AACSB Analytic

MSC: KN

23. \_\_\_\_\_ planning is the most general and far-reaching type of planning.
- a. Tactical
  - b. Strategic
  - c. Contingency
  - d. Operational

ANS: B

DIF: 1

REF: Importance of Planning

NAT: AACSB Analytic

MSC: KN

24. Which type of planning determines the primary objectives of an organization, and then acts and allocates resources to achieve those objectives?
- a. Tactical planning
  - b. Strategic planning
  - c. Contingency planning
  - d. Operational planning

ANS: B

DIF: 1

REF: Importance of Planning

25. A petroleum refinery stockpiles crude oil so that it can easily switch between producing home heating oil and gasoline, depending on relative demand. This is an example of \_\_\_\_\_ planning.
- tactical
  - strategic
  - contingency
  - operational

ANS: B

DIF: 2

REF: Importance of Planning

NAT: AACSB Reflective Thinking

MSC: AP

26. By creating a needed flight schedule between St. Louis and Chicago, Southwest Airlines was using \_\_\_\_\_ planning to complete its goals.
- contingency
  - strategic
  - operational
  - tactical

ANS: D

DIF: 2

REF: Importance of Planning

NAT: AACSB Reflective Thinking

MSC: AP

27. Which of the following decisions was NOT directly the result of a company's strategic planning?
- AOL's decision to merge with Time Warner
  - Pepsi's decision to sell its fast-food restaurants and focus on soda and snack foods
  - The decision by Amazon.com to expand its product offerings beyond books and music
  - Jet Blue Airlines' decision to add service to Oakland, California

ANS: D

DIF: 2

REF: Importance of Planning

NAT: AACSB Reflective Thinking

MSC: AP

28. When Walt Disney Pictures partnered with Pixar Animation Studios, they were using \_\_\_\_\_ planning to compete in the animated films market.
- operational
  - contingency
  - tactical
  - strategic

ANS: C

DIF: 2

REF: Importance of Planning

NAT: AACSB Reflective Thinking

MSC: AP

29. When a glucose monitor company advertises in *Diabetes Forecast* magazine, they are using \_\_\_\_\_ planning to reach the sole consumers of its product.
- operational
  - tactical
  - strategic
  - contingency

ANS: B

DIF: 2

REF: Importance of Planning

NAT: AACSB Reflective Thinking

MSC: AP

30. \_\_\_\_\_ planning involves choosing specific work targets and assigning employees and teams to carry out plans.
- Strategic
  - Operational

- c. Contingency
- d. Tactical

ANS: B PDIF: 1  
NAT: AACSB Analytic

REF: Importance of Planning  
MSC: KN

31. Nearly a week before Hurricane Katrina reached New Orleans, Wal-Mart began moving trucks and supplies into position, as specified in the company's \_\_\_\_\_ plan.
- a. tactical
  - b. strategic
  - c. operational
  - d. contingency

ANS: D DIF: 2  
NAT: AACSB Reflective Thinking

REF: Importance of Planning  
MSC: AP

32. Minnesota & Iowa Railway has plans in place to reroute trains in the event that floods or other natural disasters close some of the railroad's tracks. This is an example of \_\_\_\_\_ planning.
- a. contingency
  - b. tactical
  - c. strategic
  - d. operational

ANS: A DIF: 2  
NAT: AACSB Reflective Thinking

REF: Importance of Planning  
MSC: AP

33. A home furnishing store issued a recall notice about a vase that easily cracks. Before the notice was publicly issued, the company had assembled a crisis management team to enact a(n) \_\_\_\_\_ plan.
- a. tactical
  - b. contingency
  - c. strategic
  - d. operational

ANS: B DIF: 2  
NAT: AACSB Reflective Thinking

REF: Importance of Planning  
MSC: AP

34. Senior management usually spends the majority of their time on \_\_\_\_\_ plans.
- a. tactical
  - b. contingency
  - c. strategic
  - d. operational

ANS: C DIF: 2  
NAT: AACSB Analytic

REF: Importance of Planning  
MSC: KN

35. Tactical planning is primarily the responsibility of \_\_\_\_\_.
- a. top managers
  - b. middle managers
  - c. supervisory managers
  - d. the CEO

ANS: B DIF: 2  
NAT: AACSB Analytic

REF: Importance of Planning  
MSC: KN

36. What is the first step in the strategic planning process?
- a. Create a mission statement.



- b. Monitor and adapt plans.
- c. Assess competitive position.
- d. Develop strategies for reaching objectives.

ANS: A                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

37. A written explanation of an organization's business intentions and aims is called a(n) \_\_\_\_\_.  
a. SWOT analysis  
b. strategy for competitive differentiation  
c. objective  
d. mission statement

ANS: D                      DIF: 1                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

38. Mario is part of a strategic planning team. He has identified that his company is the low-cost producer in its industry. This should be listed on a SWOT analysis as a(n) \_\_\_\_\_.  
a. opportunity  
b. weaknesses  
c. strength  
d. threat

ANS: C                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

39. Julian owns a bread company and is creating a SWOT analysis to see where he can make improvements and increase sales. All of the following are threats to the success of his company EXCEPT \_\_\_\_\_.  
a. economies of scale  
b. downward markets  
c. regulatory changes  
d. enhanced competition

ANS: A                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

40. By using a(n) \_\_\_\_\_, Starbucks addressed the threat of fluctuating consumer trends by offering a variety of beverages and merchandise beyond coffee.  
a. mission statement  
b. contingency plan  
c. matrix  
d. SWOT analysis

ANS: D                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

41. Which of the following is made up primarily of external factors?  
a. Strengths  
b. Threats  
c. Opportunities  
d. Weaknesses

ANS: B                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

42. Serguis is a member of his firm's strategic planning team. He has identified several untapped markets that exist in other countries. His observation should be listed as a(n) \_\_\_\_\_.  
a. opportunity  
b. weakness  
c. strength  
d. threat

ANS: A                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Guideposts by which managers define the organization's desired performance are called \_\_\_\_\_.  
a. objectives  
b. missions  
c. opportunities  
d. standards

ANS: A                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

44. A primary \_\_\_\_\_ at Google is to ensure employee satisfaction by offering specialized perks, such as free meals and shoreline running trails.  
a. mission statement  
b. vision  
c. competitive differentiation  
d. objective

ANS: D                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

45. When Capital One Financial utilized their extensive database to customize its credit card operation, the company was in the \_\_\_\_\_ phase of planning.  
a. monitoring  
b. implementation  
c. decision making  
d. vision

ANS: B                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

46. Which of the following is the biggest challenge for managers in the strategic planning process?  
a. Turning strategy into action  
b. Developing the mission statement  
c. Setting objectives  
d. Assessing the competitive position

ANS: A                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

47. Decisions involving simple, common, frequently occurring problems for which solutions have already been determined are \_\_\_\_\_ decisions.  
a. creative  
b. standard  
c. programmed  
d. strategic

ANS: C                      DIF: 1                      REF: Managers as Decision Makers

48. Morgan is the manager of a local Circuit City and has put up signs promoting the store's frequent shopper card program. Morgan's assignment would be classified as a \_\_\_\_\_.  
a. programmed decision  
b. non-programmed decision  
c. span of management  
d. matrix

ANS: A

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Reflective Thinking

MSC: AP

49. Juan is a tech engineer at Apple Computer and needs to hire two new assistants for his department. Juan's decision about their starting salaries will be a \_\_\_\_\_.  
a. contingency plan  
b. line organization  
c. non-programmed decision  
d. programmed decision

ANS: D

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Reflective Thinking

MSC: AP

50. ABC Corp. has established a discount schedule for large-volume clients. This \_\_\_\_\_ will allow managers to devote more time to complex issues.  
a. increased sales volume  
b. non-programmed decision  
c. increased profit margin  
d. programmed decision

ANS: D

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Reflective Thinking

MSC: AP

51. All of the following require non-programmed decisions EXCEPT \_\_\_\_\_.  
a. complex problems  
b. important problems  
c. common, relatively simple problems  
d. situations that have not occurred before

ANS: C

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Analytic

MSC: KN

52. Luis is CEO of a new company that makes handheld computers. He is trying to decide between using the Windows Pocket PC operating system and the Palm operating system. Luis is \_\_\_\_\_.  
a. creating a vision  
b. developing a mission statement  
c. making a non-programmed decision  
d. making a programmed decision

ANS: C

DIF: 2

REF: Managers as Decision Makers

NAT: AACSB Reflective Thinking

MSC: AP

53. Isabella was hired to launch Home Depot's brand into the business office industry. She routinely makes \_\_\_\_\_ decisions that have important consequences to the company.  
a. autocratic  
b. programmed

- c. departmentalization
- d. Non-programmed

ANS: D                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

54. Heather is faced with making a decision about where to locate a store. She has researched the advantages and disadvantages of a downtown location, a mall location, and a suburban location in a strip mall. What should Heather do now?
- a. Follow up on the effectiveness of the decision.
  - b. Develop potential courses of action.
  - c. Delay making a decision.
  - d. Select and implement one of her choices.

ANS: D                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

55. The quality control team at a steel company recently implemented a strategy to reduce product defects. What is their next step?
- a. Assess the outcome of the decision.
  - b. Develop a potential course of action.
  - c. Recognize a problem or opportunity.
  - d. Evaluate the alternatives.

ANS: A                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

56. The first step in the decision-making process is to \_\_\_\_\_.
- a. decide whether the manager is facing a programmed decision or a non-programmed decision
  - b. identify the problem
  - c. develop alternatives
  - d. evaluate alternatives

ANS: B                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Analytic                      MSC: KN

57. \_\_\_\_\_ is the act of directing or inspiring others to perform activities designed to achieve organizational objectives.
- a. Controlling
  - b. Communicating
  - c. Organizing
  - d. Leadership

ANS: D                      DIF: 1                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

58. Leadership is most often associated with the ability to \_\_\_\_\_.
- a. communicate well with large groups of people
  - b. arrange activities that have to be performed in a systematic way
  - c. determine the most effective course of action
  - d. inspire others toward high levels of achievement

ANS: D                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

59. Leaders establish power from all of the following sources EXCEPT their \_\_\_\_\_.  
a. position in the organization  
b. expertise  
c. work ethic  
d. personality

ANS: C                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

60. Autocratic leaders \_\_\_\_\_.  
a. make decisions on their own, often without consulting others  
b. believe in minimal supervision  
c. are open-minded leaders  
d. involve subordinates in making decisions

ANS: A                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

61. Autocratic leaders have all of the following characteristics EXCEPT \_\_\_\_\_.  
a. concentration of power with the manager  
b. two-way communication  
c. decisions are made by the manager with little to no consultation from subordinates  
d. employees are closely supervised

ANS: B                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

62. Democratic leaders \_\_\_\_\_.  
a. involve their subordinates in making decisions  
b. let people know only what they need to know to do their jobs  
c. are always the most effective leaders  
d. leave all decisions to their subordinates

ANS: A                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

63. Which leadership style would allow sales personnel to participate in setting sales quotas?  
a. Free-rein  
b. Judgmental  
c. Democratic  
d. Autocratic

ANS: C                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

64. Maya, director of Admissions at Glenview Hospital, frequently seeks input from subordinates on issues relating to her department. Maya's style of leadership would be considered \_\_\_\_\_.  
a. judgmental  
b. democratic  
c. autocratic  
d. free-rein

ANS: B                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

65. Marriott has a policy of allowing employees at its hotels to immediately respond to customer problems without having to obtain prior approvals from senior managers. This policy is best described as \_\_\_\_\_.
- a. free-rein leadership
  - b. employee responsibility
  - c. autocratic leadership
  - d. employee empowerment

ANS: D                      DIF: 3                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

66. Marcus is in charge of the creative department at Rice Advertising Agency and believes that close supervision destroys creative expression. He concentrates on providing resources his subordinates need, but leaves most decisions up to them. Marcus is a(n) \_\_\_\_\_ leader.
- a. autocratic
  - b. free-rein
  - c. task-oriented
  - d. democratic

ANS: B                      DIF: 3                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

67. The manager of Public Service at St. Clair Community College allows committees of faculty members to make most of the decisions for the department. The manager believes that her main role is to provide faculty with the resources they need to do an effective job in the classroom. The manager's leadership style can best be described as \_\_\_\_\_.
- a. free-rein
  - b. autocratic
  - c. democratic
  - d. persuasive

ANS: A                      DIF: 3                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

68. The best style of leadership is \_\_\_\_\_.
- a. democratic
  - b. dependent on employee feedback
  - c. dependent on the leader's base of power
  - d. free-rein

ANS: C                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

69. An organization's system of principles, beliefs, and values is called \_\_\_\_\_.
- a. corporate culture
  - b. democratic leadership system
  - c. free-rein system
  - d. organizational structure

ANS: A                      DIF: 1                      REF: Corporate Culture  
NAT: AACSB Analytic                      MSC: KN

70. Corporate culture is influenced by all of the following factors EXCEPT \_\_\_\_\_.
- a. managerial philosophies
  - b. company performance

- c. communication networks
- d. workplace environments

ANS: B                      DIF: 2                      REF: Corporate Culture  
NAT: AACSB Analytic                      MSC: KN

71. In an organization with a strong culture, \_\_\_\_\_.
- a. the management is usually autocratic
  - b. everyone knows and supports the same objectives
  - c. the use of rituals is nonexistent
  - d. employees are encouraged to think and act independently

ANS: B                      DIF: 2                      REF: Corporate Culture  
NAT: AACSB Reflective Thinking                      MSC: AP

72. Which of the following groups is typically most responsible for shaping a corporate culture?
- a. Current senior management
  - b. Current middle management
  - c. The company's founders
  - d. Long-time employees

ANS: C                      DIF: 2                      REF: Corporate Culture  
NAT: AACSB Analytic                      MSC: KN

73. A(n) \_\_\_\_\_ is a structured grouping of people working together to achieve common goals.
- a. system
  - b. span of management
  - c. chain of command
  - d. organization

ANS: D                      DIF: 1                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

74. What is the first step in the organizing process?
- a. Determine specific work activities necessary to implement plans and achieve objectives.
  - b. Assign activities to specific positions and people and allocate necessary resources.
  - c. Coordinate activities of different groups and individuals.
  - d. Group work activities into a logical pattern or structure.

ANS: A                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

75. Chau-Lee is the owner-manager of a 24-hour convenience store. When he first opened the business, he employed only four people, and it was easy to manage the store through informal means. The store experienced rapid growth and is now a six-unit chain. Chau-Lee is now trying to manage 30 employees and coordinate operations in the same manner as when he first opened the business. He is frustrated and feels that his business is "out of control." What Chau-Lee needs is \_\_\_\_\_.
- a. fewer stores
  - b. more employees
  - c. a formal organization structure
  - d. an updated inventory system

ANS: C                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

76. The three key elements present in an organization are \_\_\_\_\_.

- a. human interaction, employee grievance procedures, and structure
- b. goal-directed activities, structure, and human interaction
- c. human resources, financial resources, and innovation
- d. policies, rules, and procedures

ANS: B                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

77. When a company evaluates the results of the organizing process, all the following factors are of influence EXCEPT the \_\_\_\_\_.
- a. type of product being offered
  - b. use of technology
  - c. use of time management
  - d. size of the company

ANS: C                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

78. Organization charts are the visual indication of a firm's \_\_\_\_\_.
- a. formal relationships with suppliers and customers
  - b. informal relationships within the organization
  - c. job positions and functions
  - d. management team for each department

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

79. The process of dividing work activities into units is known as \_\_\_\_\_.
- a. organizational management
  - b. programming structure
  - c. streamline management
  - d. departmentalization

ANS: D                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

80. Organizations structured to serve different areas of the world are usually departmentalized by \_\_\_\_\_.
- a. process
  - b. product
  - c. geography
  - d. function

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

81. Jeffrey would like his firm divided up into work units representing finance, marketing, and production. This is known as \_\_\_\_\_ departmentalization.
- a. product
  - b. geographic
  - c. functional
  - d. process

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP



82. Procter & Gamble is subdivided by its different lines (such as food products, toiletries, and detergents). Procter & Gamble is departmentalized by \_\_\_\_\_.  
a. process  
b. customer  
c. function  
d. product

ANS: D                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

83. Leticia is organizing the sales force for her wholesale office-supply business. She has decided to divide the sales force into three groups: one specializing in sales to schools, a second contacting government offices, and a third focusing on business customers. Which form of departmentalization is Leticia using?  
a. Geographic  
b. Customer  
c. Process  
d. Function

ANS: B                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

84. Tri-Star manufacturing is organized into three major departments: production, marketing, and finance. Tri-Star is departmentalized based on \_\_\_\_\_.  
a. product  
b. function  
c. geography  
d. process

ANS: B                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

85. American River Furniture Manufacturing's departments include cutting, staining, varnishing, drilling, shaping, and assembling. These departments are based on \_\_\_\_\_.  
a. process  
b. product  
c. function  
d. customer

ANS: A                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

86. The organizational structure based on a direct flow of authority from the top manager to subordinates is the \_\_\_\_\_ organization.  
a. functional  
b. line  
c. matrix  
d. line-and-staff

ANS: B                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

87. The line form of organization is \_\_\_\_\_.  
a. the most recent innovation in organization structures  
b. seldom used today

- c. the oldest and simplest form of structure
- d. used mainly by large corporations

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

88. The line organization is best suited for a \_\_\_\_\_.
- a. government office
  - b. small accounting firm
  - c. large supermarket chain
  - d. public utility

ANS: B                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

89. The set of relationships that indicates who gives directions to whom and who reports to whom is known as the \_\_\_\_\_.
- a. hierarchy of organizational objectives
  - b. span of management
  - c. organization chart
  - d. chain of command

ANS: D                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

90. Which of the following forms of organization is commonly used in medium- and large-sized firms?
- a. Committee organization
  - b. Line organization
  - c. Line-and-staff organization
  - d. Matrix organization

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

91. Linda is the president of a large costume jewelry manufacturing firm. Over the years, the company evolved from a line structure to a line-and-staff structure. The production department would be classified as \_\_\_\_\_.
- a. staff
  - b. line
  - c. decentralized
  - d. matrix

ANS: B                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

92. Which of the following is an example of a staff position?
- a. Director of Engineering
  - b. Chief Executive Officer
  - c. Production Vice-President
  - d. Director of Marketing

ANS: A                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

93. Volunteers at a local food kitchen decide to use an organizational structure in which authority and responsibility are jointly held by the entire group rather than a single manager. These volunteers are using a \_\_\_\_\_ organizational structure.
- functional
  - matrix
  - committee
  - line-and-staff

ANS: C                      DIF: 1                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

94. The matrix organization is also frequently referred to as \_\_\_\_\_.
- line management
  - chain of command
  - project management
  - team organization

ANS: C                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

95. Ian wonders what type of organizational structure is best suited for his company, a medium-sized manufacturing firm servicing the electronics industry. In addition to its normal product lines, the company occasionally produces special products that require the cooperation of a variety of personnel from many departments. What form of organizational structure is best suited for this operation?
- Matrix organization
  - Informal organization
  - Functional organization
  - Line organization

ANS: A                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Reflective Thinking                      MSC: AP

#### TRUE/FALSE

1. The principles of management apply to both Wal-Mart and United Way.

ANS: T                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Reflective Thinking                      MSC: AP

2. Executive vice presidents are near the top of the management pyramid.

ANS: T                      DIF: 1                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

3. CEOs need to be directly involved in the day-to-day details of their firms.

ANS: F                      DIF: 1                      REF: What Is Management?  
NAT: AACSB Reflective Thinking                      MSC: AP

4. Middle managers are responsible for developing detailed plans and procedures to implement the firm's strategic plans.

ANS: T                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

5. Most top executives began their careers with a strong communication background.

ANS: F                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Reflective Thinking                      MSC: AP

6. A baseball manager would be classified as middle management.

ANS: F                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Reflective Thinking                      MSC: AP

7. Interruptions are part of a manager's day, but they can be avoided.

ANS: F                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

8. Conceptual skills are especially important for top-level managers since they develop long-range plans for the future direction of their organizations.

ANS: T                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

9. Planning lays the groundwork, but other managerial functions are aimed at carrying out the plans.

ANS: T                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

10. The basic purpose of controlling is to evaluate the success of the planning function.

ANS: T                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

11. The directing function is a vital responsibility of top management.

ANS: F                      DIF: 2                      REF: What Is Management?  
NAT: AACSB Analytic                      MSC: KN

12. One purpose of a company's vision is to differentiate itself from its competitors.

ANS: T                      DIF: 2                      REF: Setting a Vision and Ethical Standards for the Firm  
NAT: AACSB Analytic                      MSC: KN

13. Vision is a skill found primarily in supervisory managers.

ANS: F                      DIF: 2                      REF: Setting a Vision and Ethical Standards for the Firm  
NAT: AACSB Analytic                      MSC: KN

14. A company's vision should be focused and rigid enough so that the company is not in danger of straying from its path to success.

ANS: F                      DIF: 2                      REF: Setting a Vision and Ethical Standards for the Firm  
NAT: AACSB Reflective Thinking                      MSC: AP

15. CEOs who are dismissed are more likely to receive generous severance packages than those who resign.

ANS: T                      DIF: 2                      REF: Setting a Vision and Ethical Standards for the Firm  
NAT: AACSB Analytic                      MSC: KN

16. The most far-reaching level of planning is tactical planning.

ANS: F                      DIF: 1                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

17. An auto parts store establishes a policy requiring that customer service representatives respond to Web site e-mails within three business days. This policy is a result of the company's tactical planning.

ANS: F                      DIF: 2                      REF: Importance of Planning  
NAT: AACSB Reflective Thinking                      MSC: AP

18. The decision of Dell to market computers “built to order” was part of its initial strategic planning.

ANS: T                      DIF: 2                      REF: Importance of Planning  
NAT: AACSB Reflective Thinking                      MSC: AP

19. As part of its strategy to compete with high-end stores, Target utilized operational planning by hiring famous designers to create its apparel lines.

ANS: T                      DIF: 2                      REF: Importance of Planning  
NAT: AACSB Reflective Thinking                      MSC: AP

20. Contingency planning involves the actual training of workers to respond in emergency situations.

ANS: T                      DIF: 2                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

21. Managers engage in planning on a situational basis. It’s not an everyday objective.

ANS: F                      DIF: 2                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

22. Tactical planning is the primary responsibility of middle managers and supervisors.

ANS: T                      DIF: 1                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

23. Senior managers spend most of their time on strategic and long-range planning.

ANS: T                      DIF: 1                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

24. The planning process is better suited to managers, not general employees.

ANS: F                      DIF: 1                      REF: Importance of Planning  
NAT: AACSB Analytic                      MSC: KN

25. Mission statements are relatively easy to develop so long as the company's vision is clear.

ANS: F                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Reflective Thinking                      MSC: AP

26. Mission statements are generally no longer than one or two sentences.

ANS: F                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

27. SWOT is an acronym for strengths, weaknesses, opportunities, and teamwork.

ANS: F                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

28. SWOT analysis encourages a practical approach to planning based on a realistic view of a firm's scenarios of likely future events.

ANS: T                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

29. The mission statement defines a company's goals in general terms, whereas objectives are concrete statements.

ANS: T                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

30. Profit is still the sole exclusive objective for performance standards.

ANS: F                      DIF: 3                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

31. Product innovation is a classic example of competitive differentiation.

ANS: T                      DIF: 2                      REF: The Strategic Planning Process  
NAT: AACSB Analytic                      MSC: KN

32. A programmed decision involves problems for which solutions have already been made.

ANS: T                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Analytic                      MSC: KN

33. Programmed decisions eliminate the time-consuming process of evaluating alternatives.

ANS: T                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Analytic                      MSC: KN

34. When the manager of a local auto repair shop decided to expand into a neighboring town, she was making a non-programmed decision.

ANS: T                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

35. For non-programmed decisions, organizations develop rules, policies, and procedures.

ANS: F                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Analytic                      MSC: KN

36. Decisions can evolve from non-programmed into programmed.

ANS: T                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

37. The decision-making process includes the recognition of a problem or opportunity.

ANS: T                      DIF: 1                      REF: Managers as Decision Makers  
NAT: AACSB Analytic                      MSC: KN

38. A formal decision-making process is not practical for most not-for-profit organizations.

ANS: F                      DIF: 2                      REF: Managers as Decision Makers  
NAT: AACSB Reflective Thinking                      MSC: AP

39. Great leaders share all of the same qualities.

ANS: F                      DIF: 1                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

40. A willingness to experiment is usually too risky for effective leadership.

ANS: F                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

41. A leader can use humor and an energetic personality to establish a source of power.

ANS: T                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

42. Autocratic is a leadership style that adjusts in accordance with the situation.

ANS: F                      DIF: 2                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

43. A significant business trend during the past decade has been the empowerment of employees.

ANS: T                      DIF: 1                      REF: Managers as Leaders  
NAT: AACSB Analytic                      MSC: KN

44. Danielle runs a hotel and gives her employees the authority to make on-the-spot decisions to improve customer satisfaction. Danielle is empowering her employees.

ANS: T                      DIF: 1                      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking                      MSC: AP

45. Ashley manages a telemarketing company that sells vacations over the phone. She is required to meet a certain profit margin every month, and she assigns sales quotas to her employees without consultation. Ashley is an example of an autocratic leader.

ANS: T                      DIF: 2                      REF: Managers as Leaders

NAT: AACSB Reflective Thinking      MSC: AP

46. Democratic leaders give their subordinates the authority to make all decisions.

ANS: F      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Analytic      MSC: KN

47. Free-rein leaders believe that both employees as well as managers should make decisions.

ANS: F      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Analytic      MSC: KN

48. Free-rein leaders believe in minimal communication since employees are empowered to make all decisions.

ANS: F      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking      MSC: AP

49. Jorge believes that close supervision of employees stifles creativity, so he allows his employees to make most of their own decisions. Jorge is an example of a free-rein leader.

ANS: T      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking      MSC: AP

50. Managers may switch from one style of leadership to another depending on the situation.

ANS: T      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Reflective Thinking      MSC: AP

51. Experts agree that they can identify any single best style of leadership.

ANS: F      DIF: 2      REF: Managers as Leaders  
NAT: AACSB Analytic      MSC: KN

52. The most effective leadership style for a manager to adopt often depends on the organization's corporate culture.

ANS: T      DIF: 1      REF: Managers as Leaders  
NAT: AACSB Analytic      MSC: KN

53. An effective manager does not need a strong corporate culture in order to succeed.

ANS: F      DIF: 1      REF: Corporate Culture  
NAT: AACSB Reflective Thinking      MSC: AP

54. Managers use symbols, rituals, and ceremonies to reinforce corporate culture.

ANS: T      DIF: 1      REF: Corporate Culture  
NAT: AACSB Analytic      MSC: KN

55. Corporate culture is typically shaped by those who founded and developed the company.

ANS: T      DIF: 1      REF: Corporate Culture  
NAT: AACSB Analytic      MSC: KN



56. Other than improving employee morale, corporate culture has little impact on a company's success.

ANS: F                      DIF: 1                      REF: Corporate Culture  
NAT: AACSB Reflective Thinking                      MSC: AP

57. When current employees pass on corporate culture to newer employees, the process is always informal to avoid intimidation.

ANS: F                      DIF: 2                      REF: Corporate Culture  
NAT: AACSB Analytic                      MSC: KN

58. The first step in the organizing process is to group work activities in a logical pattern or structure.

ANS: F                      DIF: 1                      REF: Corporate Culture  
NAT: AACSB Analytic                      MSC: KN

59. As a firm grows, its structure should be simplified.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

60. Departmentalization is the process of dividing work activities into units within the organization.

ANS: T                      DIF: 1                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

61. Emerging business opportunities are a special type of functional departmentalization.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

62. Work organized by the different types of goods and services is called product departmentalization.

ANS: T                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

63. Firms organized around business functions such as finance, marketing, and production have process departmentalization.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

64. A single company may implement several different organizational schemes.

ANS: T                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

65. In an organization, authority and responsibility tend to move downward, while accountability moves upward.

ANS: T                      DIF: 3                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

66. A trend toward decentralization has pushed decision making down to operating employees.

ANS: T                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

67. In a line organization, the staff manager has direct control over functions like production and marketing.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

68. In a committee organization, the ultimate responsibility is still held by one individual.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

69. In a line and staff organization, staff managers have the authority to give orders to line departments.

ANS: F                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

70. One disadvantage of a matrix organization is that employees may be confused and frustrated in reporting to two bosses.

ANS: T                      DIF: 2                      REF: Organizational Structures  
NAT: AACSB Analytic                      MSC: KN

## Chapter 9—Human Resource Management, Motivation, and Labor-Management Relations

### MATCHING

*Complete the following using the terms listed.*

- a. job enlargement
  - b. 360-degree performance review
  - c. collective bargaining
  - d. Theory X
  - e. downsizing
  - f. outsourcing
  - g. flexible work plans
  - h. grievance
  - i. 401(k) plans
  - j. human resource management
  - k. Theory Z
  - l. management development program
  - m. lockout
  - n. arbitration
1. The function of attracting, developing, and retaining enough qualified employees to perform the activities necessary to accomplish organizational objectives is called \_\_\_\_\_.
  2. \_\_\_\_\_ allow employees to adjust their working hours and places of work to accommodate their personal needs.
  3. One type of performance appraisal is the \_\_\_\_\_, which gathers feedback from a review panel of co-workers, supervisors, team members, and subordinates.
  4. Using outside specialists to perform functions previously performed by company employees is called \_\_\_\_\_.
  5. \_\_\_\_\_ is a job design that expands an employee's responsibilities by increasing the number and variety of tasks.
  6. \_\_\_\_\_ managers assume that employees dislike work and avoid it whenever possible.
  7. \_\_\_\_\_ are retirement savings plans to which employees can make pre-tax contributions to retirement accounts.
  8. \_\_\_\_\_ is the process of reducing the number of employees within a firm by eliminating jobs.
  9. The process of negotiation between management and union representatives for the purpose of arriving at a mutually acceptable agreement is called \_\_\_\_\_.
  10. A union complaint that management is violating a provision of the union contract is called a(n) \_\_\_\_\_.
  11. A(n) \_\_\_\_\_ provides training designed to improve the skills and broaden the knowledge of current and potential executives.
  12. A manager believing in \_\_\_\_\_ views worker involvement as the key to increased productivity for the company and improved quality of work life for employees.
  13. A management strike, also known as a(n) \_\_\_\_\_, puts pressure on union members by closing the firm.
  14. When disputes cannot be solved voluntarily through mediation, parties can use \_\_\_\_\_ by bringing in an impartial third party who renders a legally binding decision.
- 
- |                     |        |  |
|---------------------|--------|--|
| 1. ANS: J           | DIF: 2 | REF: Human Resource Management Is Vital to all Organizations |
| NAT: AACSB Analytic |        | MSC: KN  |
| 2. ANS: G           | DIF: 2 | REF: Compensation  |
| NAT: AACSB Analytic |        | MSC: KN  |

3.	ANS: B	DIF: 2	REF: Orientation, Training, and Evaluation
	NAT: AACSB Analytic		MSC: KN
4.	ANS: F	DIF: 2	REF: Employee Separation
	NAT: AACSB Analytic		MSC: KN
5.	ANS: A	DIF: 2	REF: Motivating Employees
	NAT: AACSB Analytic		MSC: KN
6.	ANS: D	DIF: 2	REF: Motivating Employees
	NAT: AACSB Analytic		MSC: KN
7.	ANS: I	DIF: 2	REF: Compensation
	NAT: AACSB Analytic		MSC: KN
8.	ANS: E	DIF: 2	REF: Employee Separation
	NAT: AACSB Analytic		MSC: KN
9.	ANS: C	DIF: 2	REF: Labor-Management Relations
	NAT: AACSB Analytic		MSC: KN
10.	ANS: H	DIF: 2	REF: Labor- Management Relations
	NAT: AACSB Analytic		MSC: KN
11.	ANS: L	DIF: 2	REF: Orientation, Training, and Evaluation
	NAT: AACSB Analytic		MSC: KN
12.	ANS: K	DIF: 2	REF: Motivating Employees
	NAT: AACSB Analytic		MSC: KN
13.	ANS: M	DIF: 2	REF: Labor-Management Relations
	NAT: AACSB Analytic		MSC: KN
14.	ANS: N	DIF: 2	REF: Labor-Management Relations
	NAT: AACSB Analytic		MSC: KN

## ESSAY

1. Define human resource management and the role of human resource planning in an organization's competitive strategy.

ANS:

Human resource management is the function of attracting, developing, and retaining enough qualified employees to perform the activities necessary to accomplish organizational objectives. Human resource planning forecasts the number of employees a firm will need and determines the types of skills necessary to implement its plans.

DIF: 3 REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic MSC: KN

2. Explain the core responsibilities of human resource management.

ANS:

The core responsibilities of human resource management include planning for staffing needs, recruitment and selection, training and evaluating performance, compensation and benefits, and employee separation.

DIF: 2 REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic MSC: KN

3. Describe how recruitment contributes to placing the right person in a job.

ANS:

Firms use internal and external methods to recruit qualified employees. For needs that the company cannot meet with existing employees, it may find candidates by encouraging employee referrals, advertising, accepting resumes at its Web site, and using job search Web sites. In selecting qualified candidates, human resources managers must follow legal requirements designed to promote equal employment opportunity. Employment tests, such as cognitive ability tests, are often used to assess job candidates' capabilities and assist companies to hire more qualified workers.

DIF: 3                      REF: Recruitment and Selection  
NAT: AACSB Reflective Thinking                      MSC: AP

4.

What are some of the costs associated with recruitment? How do hiring mistakes increase expenses for a firm?

ANS:

Firms incur costs for advertising job openings, interviewing applicants, conducting background checks, employment tests, and medical exams. Hiring mistakes increase training costs, can result in lawsuits and unemployment compensation claims, as well as reduce productivity and employee morale.

DIF: 2                      REF: Recruitment and Selection                      NAT: AACSB Analytic  
MSC: KN

5. Compare on-the-job and off-the-job employee training programs. List examples of each.

ANS:

On-the-job training prepares employees for job duties by allowing them to perform tasks under the guidance of more experienced employees. Apprenticeships are a form of on-the-job training. Off-the-job training includes both classroom as well as computer-based training. Computer-based training has a number of advantages, including reduced travel costs, consistent presentations, and learning at one's own pace.

DIF: 3                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Reflective Thinking                      MSC: AP

6. What is a 360-degree performance review? What are its advantages and disadvantages?

ANS:

A 360-degree performance review is a process that gathers feedback from a review panel of between 8 and 12 people. The panel includes co-workers, supervisors, team members, subordinates, and even customers. The idea is to get as much frank feedback from as many perspectives as possible. Around two-thirds of all large U.S. companies use them. The downside of 360-degree reviews is the fact that they involve a great deal more work for both the employee and manager. Also, since the evaluations are anonymous, those with an axe to grind can use these evaluations to even scores.

DIF: 2                      REF: Orientation, Training, and Evaluation                      NAT: AACSB Reflective  
Thinking  
MSC: AP

7. Identify and briefly describe the four most popular methods of incentive compensation.

ANS:

The most widely-used method of incentive compensation is profit sharing, in which a percentage of a firm's profits are distributed to the firm's employees. A problem with this approach is that many factors beyond the control of employees can affect profits. Gain sharing rewards employees for results they can directly influence, such as higher productivity or improved quality. A third type of incentive is the lump-sum bonus. This one-time payment does not get built into salaries or wages. Bonuses are usually intended as an incentive for increased productivity and are a reward for exceptional performance. The final type of incentive compensation is pay for knowledge, which rewards employees for acquiring new skills and knowledge. This approach encourages a more flexible work force and workers with a broader perspective.

DIF: 3                      REF: Compensation NAT: AACSB Analytic  
MSC: KN

8. What are flexible benefit plans?

ANS:

Flexible benefit plans, or cafeteria plans, offer employees a range of options from which they can choose, including different types of medical insurance coverage, dental and vision plans, life insurance, disability insurance, and extra vacation days. Employees can choose how to allocate their benefit dollars within some general guidelines to meet individual needs. Another aspect of flexible benefit programs is a policy in which some companies give employees a bank of paid time off that they can use for any reason.

DIF: 2                      REF: Compensation NAT: AACSB Analytic  
MSC: KN

9. What is downsizing? How is it different from outsourcing?

ANS:

Downsizing is the process of reducing the number of employees within a firm by eliminating jobs. Downsizing is done to cut overhead costs and streamline the organizational structure. With outsourcing, companies contract with other firms to perform non-core jobs or business functions, such as housekeeping, maintenance, or relocation services. This allows companies to focus on what they do best, and can result in a downsized workforce.

DIF: 3                      REF: Employee Separation  
NAT: AACSB Reflective Thinking                      MSC: AP

10. Describe Maslow's *hierarchy of needs* and explain how an individual is motivated by them.

ANS:

Maslow has stated that each of us is motivated by unfilled needs and these needs are ascending. The lowest level needs are physical -- food, shelter, and basic clothing. Once these needs are satisfied, they no longer act as motivators, but a new higher level of needs (safety) act as the next level. Social needs are on the next level and are followed by esteem needs. The highest level is self-actualization.

DIF: 3                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Explain why job enlargement does not necessarily lead to job enrichment.

ANS:

Job enrichment only occurs when the enlarged work assignment increases the worker's feelings of accomplishment and responsibility. Job enlargement only adds additional tasks to the work routine, and each of the new tasks tends to be similar to the old one. Some workers are not interested in performing more tasks. In such instances, the job enlargement will not enrich the work assignment.

DIF: 3  
MSC: AP

REF: Motivating Employees

NAT: AACSB Reflective Thinking

12. Discuss how Theory X, Y, and Z managers would each attempt to increase productivity.

ANS:

Theory X managers would use fear, constant supervision, and additional money as tools to increase productivity. Theory Y managers would try to make work more interesting and challenging for their employees. Theory Z managers would use shared decision making and the use of a matrix form of organization.

DIF: 2  
MSC: AP

REF: Motivating Employees

NAT: AACSB Reflective Thinking

13. Discuss the differences between mediation and arbitration.

ANS:

When negotiations between union and management representatives break down, they sometimes resort to a voluntary process, called mediation, to settle the dispute. This process brings in an impartial third party to make recommendations for settling differences. The mediator does not serve as a decision maker -- he or she cannot impose a settlement -- but rather assists both sides by offering suggestions, advice, and compromises. Arbitration is an option for settling disputes if mediation fails to bring about an agreement. The parties bring in an arbitrator who listens to both sides of the dispute and then issues a binding decision. Sometimes unions and management voluntarily agree to arbitration by a third party. In rare cases, the federal government forces both sides into arbitration.

DIF: 3

REF: Labor-Management Relations

NAT: AACSB Reflective Thinking

MSC: AP

14. Describe the tactics used by organized labor when dealing with management.

ANS:

The chief tactics of unions are strikes, picketing, and boycotts. During a strike, or walkout, employees stop work until a dispute has been settled or a contract signed. However, the number of strikes has dropped dramatically in recent years because they can damage an entire industry. Picketing involves workers marching at the entrances of the employer's facility as a public protest against some management practice. As long as picketing does not involve violence or intimidation, it is considered protected free speech. A boycott is an organized attempt to keep the public from purchasing the goods or services of a particular firm.

DIF: 3

REF: Labor-Management Relations

NAT: AACSB Reflective Thinking

MSC: AP

## MULTIPLE CHOICE

1. The function of attracting, developing, and retaining enough qualified employees to perform the activities necessary to accomplish organizational objectives is part of \_\_\_\_\_.  
a. human resource management

- b. human asset accounting
- c. management objectives
- d. management development

ANS: A                      DIF: 1                      REF: Human Resource Management Is Vital to all Organizations  
 NAT: AACSB Analytic                      MSC: KN

2. All of the following are core responsibilities of human resource managers EXCEPT \_\_\_\_\_.  
 a. employee recruitment  
 b. company budget forecasts  
 c. employee compensation and benefits  
 d. employee training and performance evaluation

ANS: B                      DIF: 1                      REF: Human Resource Management Is Vital to all Organizations  
 NAT: AACSB Analytic                      MSC: KN

3. Pham is employed as a human resource manager. His responsibilities might include all of the following activities EXCEPT \_\_\_\_\_.  
 a. developing employee training programs  
 b. administering employee benefit programs  
 c. projecting sales for the coming six-month period  
 d. administering compensation plans

ANS: C                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
 NAT: AACSB Reflective Thinking                      MSC: AP

4. Which of the following is an overall objective of the human resource management department?  
 a. Forecasting anticipated sales  
 b. Maximizing employee effectiveness in the organization  
 c. Determining sources of operating funds  
 d. Daily supervision of hourly employees

ANS: B                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
 NAT: AACSB Analytic                      MSC: KN

5. Manuel is a human resources manager at a company that places high value on employee performance and satisfaction. Manuel attracts and keeps good employees in all of the following ways EXCEPT \_\_\_\_\_.  
 a. offering fair pay  
 b. providing quality benefits  
 c. ensuring optimal working conditions  
 d. assigning employees into programs with substantial budgets

ANS: D                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
 NAT: AACSB Reflective Thinking                      MSC: AP

6. Once a week, the human resource department of Future Products posts a list of all of the jobs available throughout the company. The human resource department must then wait two weeks before placing a classified ad or contacting employment agencies about new openings. Future Products is adhering to a policy of \_\_\_\_\_.



- a. on-the-job training
- b. employment at will
- c. external recruitment
- d. hiring from within

ANS: D

DIF: 2

REF: Recruitment and Selection

NAT: AACSB Reflective Thinking

MSC: AP

7. Which of the following sources of candidates for job openings is relatively inexpensive and helps build employee morale?
- a. Executive search firms
  - b. Current employees
  - c. Public employment agencies
  - d. Newspaper advertisements

ANS: B

DIF: 1

REF: Recruitment and Selection

NAT: AACSB Analytic

MSC: KN

8. Which of the following is a primary reason for the reduction in highly skilled employees?
- a. Firms cannot afford to pay competitive salaries
  - b. Employees with lack of specialized skills
  - c. Baby boomers retiring and not enough Generation X workers taking their place
  - d. More people becoming entrepreneurs

ANS: C

DIF: 2

REF: Recruitment and Selection

NAT: AACSB Analytic

MSC: KN

9. Which recruitment method generates the highest number of applicants for employers?
- a. Newspaper advertising
  - b. Employee referrals
  - c. The Internet
  - d. College recruitment

ANS: A

DIF: 3

REF: Recruitment and Selection

NAT: AACSB Analytic

MSC: KN

10. The Equal Employment Opportunity Commission (EEOC) assists employers with all of the following issues EXCEPT \_\_\_\_\_.
- a. establishing affirmative action programs
  - b. increasing job opportunities for women
  - c. increasing job opportunities for disabled people
  - d. arranging for legal counsel for companies against discrimination complaints

ANS: D

DIF: 1

REF: Recruitment and Selection

NAT: AACSB Diversity

MSC: KN

11. The Americans with Disabilities Act makes it illegal for a company to ask about a job applicant's health when they are applying for a position, unless \_\_\_\_\_.
- a. the condition directly affects the person's ability to perform the job
  - b. the company cannot afford higher-than-average medical costs
  - c. the condition requires an extended leave of absence
  - d. A company is never allowed to ask about a job applicant's health.

ANS: A

DIF: 2

REF: Recruitment and Selection

NAT: AACSB Diversity

MSC: KN

12. Derek runs the finance department for a software company and wants to measure a job candidate's ability in numerical aptitude, general reasoning, and verbal comprehension. According to experts, which test would be ideal for this situation?
- Certified public accounting exam
  - Cognitive ability test
  - Associative learning comprehension
  - Personality type indicator

ANS: B

DIF: 3

REF: Recruitment and Selection

NAT: AACSB Reflective Thinking

MSC: AP

13. The orientation program is administered jointly by the \_\_\_\_\_.
- human resource department and the department in which the employee will work
  - appropriate vice president and the human resource department
  - payroll department and the human resource department
  - employee training instructor and the management development office

ANS: A

DIF: 2

REF: Orientation, Training, and Evaluation

NAT: AACSB Analytic

MSC: KN

14. Which of the following is an example of on-the-job training?
- Online training programs
  - Conferences
  - Apprenticeship programs
  - Classroom lectures

ANS: C

DIF: 2

REF: Orientation, Training, and Evaluation

NAT: AACSB Analytic

MSC: KN

15. Some companies are replacing classroom training with computer-based and online training programs because these programs offer all of the following advantages EXCEPT \_\_\_\_\_.
- reduced travel costs
  - online training programs are less difficult
  - online training offers consistent presentations
  - employees can learn at their own pace

ANS: B

DIF: 2

REF: Orientation, Training, and Evaluation

NAT: AACSB Analytic

MSC: KN

16. Amy is a promising middle manager for a large company. She is taking part in a training program designed to improve her skills and broaden her knowledge of the company and entire industry. Amy is taking part in a(n) \_\_\_\_\_.
- on-the-job training program
  - management development program
  - 360-degree review
  - executive orientation program

ANS: B

DIF: 2

REF: Orientation, Training, and Evaluation

NAT: AACSB Reflective Thinking

MSC: AP

17. Learning the best practices of the top companies is an approach referred to as \_\_\_\_\_.
- benchmarking
  - performance appraisal
  - orientation
  - management development

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Orientation, Training, and Evaluation  
MSC: KN

18. Based on employee performance appraisals, managers make objective decisions about all of the following EXCEPT \_\_\_\_\_.  
a. compensation  
b. additional training needs  
c. promotion  
d. corporate outsourcing

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Orientation, Training, and Evaluation  
MSC: KN

19. In a traditional performance review, an employee's review is conducted by \_\_\_\_\_.  
a. his or her co-workers  
b. customers  
c. his or her supervisor  
d. the firm's CEO

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Orientation, Training, and Evaluation  
MSC: KN

20. Robert is a middle manager for All Dogs Food Co. He has requested an evaluation by a panel to include co-workers, superiors, subordinates, and several of the company's clients. This type of evaluation is called a \_\_\_\_\_.  
a. management development program  
b. Professional Analysis, Inc. (PAI) review  
c. status performance appraisal  
d. 360-degree performance review

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Orientation, Training, and Evaluation  
MSC: AP

21. Demitrius is scheduled for a 360-degree performance review at UPS. What advantage can he and the company gain from this review?  
a. Less work for employees and managers  
b. Less paperwork than a traditional review  
c. Personal disputes cannot taint the outcome  
d. Feedback from multiple perspectives

ANS: D                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Orientation, Training, and Evaluation  
MSC: AP

22. Omar, an electrician for Quality Builders, is paid \$35 for each hour he works during the day. After 5 p.m. and on weekends, he is paid the overtime rate of one and one-half times the regular hourly rate. Omar is paid a \_\_\_\_\_.  
a. wage  
b. bonus  
c. commission  
d. salary

ANS: A                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Compensation  
MSC: AP

23. Antonio is paid \$55,000 per year as a research analyst. This type of compensation is called a(n) \_\_\_\_\_.
- a. employee benefit
  - b. time wage
  - c. wage
  - d. salary

ANS: D                      DIF: 2                      REF: Compensation  
NAT: AACSB Reflective Thinking                      MSC: AP

24. Most companies base their compensation policies on all of the following factors EXCEPT \_\_\_\_\_.
- a. government legislation
  - b. cost of living
  - c. worker's previous salary
  - d. worker productivity

ANS: C                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

25. Joanne performed substantially better than her supervisor had expected on predetermined department goals. Because of her surpassed productivity, she received an extra \$1,500 at the end of the year. Joanne was \_\_\_\_\_.
- a. paid an additional salary
  - b. awarded a gain sharing bonus
  - c. given overtime pay
  - d. granted incentive compensation based on her knowledge

ANS: B                      DIF: 3                      REF: Compensation  
NAT: AACSB Reflective Thinking                      MSC: AP

26. Gain sharing is an employee benefit that provides \_\_\_\_\_.
- a. increased stock options if the company is doing well
  - b. bonuses for recruiting new employees for needed positions
  - c. bonuses based on surpassing performance goals
  - d. salary increases based on learning new job skills

ANS: C                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

27. The share of total compensation paid to employees in the form of benefits has \_\_\_\_\_ in recent years.
- a. declined
  - b. remained about the same
  - c. increased
  - d. grown to the point that benefits are a larger share of total compensation than are wages and salaries

ANS: C                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

28. All of the following employee benefits are required by law with the exception of \_\_\_\_\_.
- a. Medicare
  - b. unemployment insurance
  - c. Social Security
  - d. health insurance

ANS: D                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

29. Brian's employer allocates a set amount of money that he can spend on a menu of employee benefits. This type of "cafeteria" plan is called a \_\_\_\_\_ benefits plan.
- a. flexible
  - b. supplemental
  - c. volunteer
  - d. legally mandated

ANS: A                      DIF: 2                      REF: Compensation  
NAT: AACSB Reflective Thinking                      MSC: AP

30. All of the following are examples of flexible working arrangements EXCEPT \_\_\_\_\_.
- a. paid time off
  - b. compressed workweeks
  - c. 401(k) plans
  - d. job sharing plans

ANS: C                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

31. Kate is a full-time nurse and would like to work fewer days but the same amount of hours. Which flexible work plan would be ideal for her situation?
- a. Job sharing program
  - b. Compressed workweek
  - c. Telecommuter
  - d. Flextime

ANS: B                      DIF: 2                      REF: Compensation  
NAT: AACSB Reflective Thinking                      MSC: AP

32. Darren decided to change jobs. Before he left the company, he talked to someone in the human resources department about the reasons why he was leaving. Darren went through a(n) \_\_\_\_\_ interview.
- a. termination
  - b. exit
  - c. downsizing
  - d. outsourcing

ANS: B                      DIF: 2                      REF: Employee Separation  
NAT: AACSB Reflective Thinking                      MSC: AP

33. Hailey manages the finance department at her company, and she discovers that one of her employees is performing poorly and letting co-workers pick up the slack. Hailey knows that resentment is building, so after an initial write-up, she proceeds with a(n) \_\_\_\_\_ of the employee.
- a. involuntary turnover
  - b. downsizing
  - c. outsourcing
  - d. voluntary turnover

ANS: A                      DIF: 2                      REF: Employee Separation  
NAT: AACSB Reflective Thinking                      MSC: AP

34. Which of the following is often a negative result of downsizing?

- a. Employee morale declines
- b. Product quality drops
- c. Competitive position deteriorates
- d. Customer service quality declines

ANS: A                      DIF: 2                      REF: Employee Separation  
 NAT: AACSB Analytic                      MSC: KN

35. In most firms, outsourcing begins with \_\_\_\_\_.
- a. production
  - b. human resource management
  - c. accounting and finance
  - d. maintenance

ANS: D                      DIF: 1                      REF: Employee Separation  
 NAT: AACSB Analytic                      MSC: KN

36. Which of the following is NOT a reason for outsourcing?
- a. Avoiding long-term resource costs
  - b. Enabling a firm to focus on functions it does best
  - c. Improving internal management controls
  - d. Gaining flexibility to change vendors at the end of contract periods

ANS: C                      DIF: 2                      REF: Employee Separation  
 NAT: AACSB Reflective Thinking                      MSC: AP

37. Robert's company contracted with another business to provide technical and computer support. This is an example of \_\_\_\_\_.
- a. downsizing
  - b. outsourcing
  - c. employee empowerment
  - d. restructuring the organization

ANS: B                      DIF: 2                      REF: Employee Separation  
 NAT: AACSB Reflective Thinking                      MSC: AP

38. A need produces \_\_\_\_\_, which leads to \_\_\_\_\_.
- a. motivation; goal-directed behavior
  - b. goal-directed behavior; rewards
  - c. responsibility; satisfaction
  - d. stress-directed behavior; motivation

ANS: A                      PTS: 1                      DIF: 3                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

39. According to Maslow, an individual's first priority is given to which level of need?
- a. Esteem
  - b. Self-actualization
  - c. Physiological
  - d. Safety

ANS: C                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

40. Helène, an industrial sales representative, bought a cellular phone to use if she ever had car trouble while traveling between appointments. Which level of Maslow's need hierarchy is Helène addressing?

- a. Physiological
- b. Safety
- c. Esteem
- d. Self-actualization

ANS: B                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

41. The desire to be accepted by family members and other individuals is what Maslow called \_\_\_\_\_ needs.
- a. physiological
  - b. esteem
  - c. social
  - d. self-actualization

ANS: C                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

42. According to Maslow, the desire to receive attention and recognition from others is a(n) \_\_\_\_\_ need.
- a. safety
  - b. esteem
  - c. physiological
  - d. self-actualization

ANS: B                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

43. According to Maslow, which of the following would satisfy esteem needs?
- a. Regular increases in salary
  - b. Pension programs
  - c. Safe working conditions
  - d. Performance recognition awards

ANS: D                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

44. Juanita is the captain of an all-women sailing schooner. Her long-term goal is to receive her state's Best Captain award for this type of sailboat. Juanita is motivated by \_\_\_\_\_.
- a. esteem needs
  - b. social needs
  - c. self-actualization needs
  - d. physiological needs

ANS: C                      DIF: 3                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

45. The basic components of goal-setting theory include all of the following EXCEPT \_\_\_\_\_.
- a. goal difficulty
  - b. performance feedback
  - c. goal acceptance
  - d. time management

ANS: D                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

46. Claire announces to her staff that she intends to lower costs in their department by 5 percent. Which component of goal setting is Claire utilizing?
- a. Time management
  - b. Goal specificity
  - c. Goal acceptance
  - d. Performance Review

ANS: B                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

47. Job \_\_\_\_\_ involves redesigning work assignments to give employees more authority to plan their activities and decide how work is to be accomplished.
- a. enlargement
  - b. management
  - c. rotation
  - d. enrichment

ANS: D                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

48. David is the head chef in a restaurant, and has decided to increase the number of tasks performed by the kitchen staff. The added tasks do not result in increased challenge or authority. David's efforts are called job \_\_\_\_\_.
- a. enrichment
  - b. sharing
  - c. enlargement
  - d. management

ANS: C                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

49. Malcolm, manager of a purchasing department, no longer requires his employees to obtain approval before making purchases under \$10,000. Malcolm would be described as a \_\_\_\_\_ manager.
- a. traditional
  - b. Theory Y
  - c. Theory X
  - d. Theory Z

ANS: D                      DIF: 3                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

50. Gloria, a supervisor of data entry clerks, uses a time clock to document the attendance of her employees. She believes that without the monitoring system, her employees' attendance records would decline rapidly. Gloria's assumption about worker behavior is based on \_\_\_\_\_.
- a. Theory X
  - b. Maslow's hierarchy of needs
  - c. Theory Y
  - d. Management by Objectives (MBO)

ANS: A                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

51. Hannah, a manager for ABC Construction, believes that sharing decision-making abilities with her employees increases productivity. Hannah would be described as a(n) \_\_\_\_\_ manager.
- a. Theory Z



- b. Theory X
- c. Theory Y
- d. autocratic

ANS: A                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

52. Carlos, a management trainee, completed a leadership profile in which he was identified as having Theory Y assumptions about people. Therefore, Carlos would believe that \_\_\_\_\_.
- a. workers can exercise self-control and direction toward organization goals
  - b. the average person has relatively little ambition and wants security above all
  - c. the average worker will, under proper conditions, not only accept but also actually seek responsibility
  - d. the expenditure of physical and mental effort in work is as natural as play or rest

ANS: C                      DIF: 3                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

53. Which theory of management tries to blend the best of American and Japanese management practices?
- a. Theory X
  - b. Theory Y
  - c. Theory Z
  - d. Theory C

ANS: C                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Analytic                      MSC: KN

54. Eric is a supervisor and he works hard to involve his employees in all aspects of the operation believing that employee involvement is a key to improving productivity. Eric is a \_\_\_\_\_ manager.
- a. Theory X
  - b. Theory Y
  - c. Theory Z
  - d. Theory C

ANS: C                      DIF: 2                      REF: Motivating Employees  
 NAT: AACSB Reflective Thinking                      MSC: AP

55. Approximately what percentage of American workers currently belong to a labor union?
- a. less than 5 percent
  - b. between 10 percent and 20 percent
  - c. between 20 percent and 30 percent
  - d. over 40 percent

ANS: B                      DIF: 2                      REF: Labor-Management Relations  
 NAT: AACSB Analytic                      MSC: KN

56. Local unions are typically organized by \_\_\_\_\_.
- a. geographic area
  - b. occupation
  - c. affiliation with the national union
  - d. affiliation with the international union

ANS: A                      DIF: 1                      REF: Labor-Management Relations  
 NAT: AACSB Analytic                      MSC: KN

57. Outside the United States, from which country do international unions draw most of their members?

- a. Canada
- b. Mexico
- c. Great Britain
- d. Germany

ANS: A                      DIF: 2  
 NAT: AACSB Analytic

REF: Labor-Management Relations  
 MSC: KN

58. The largest labor union in the United States is the \_\_\_\_\_.
- a. American Federation of Labor-Congress of Industrial Organizations (AFL-CIO)
  - b. National Education Association
  - c. United Autoworkers (UAW)
  - d. Teamsters

ANS: B                      DIF: 3  
 NAT: AACSB Analytic

REF: Labor-Management Relations  
 MSC: KN

59. The National Labor Relations Act of 1935 (Wagner Act) required employers to \_\_\_\_\_.
- a. limit the amount of hours worked per week
  - b. negotiate with elected representatives of their employees
  - c. establish open shops where unions are free to organize
  - d. bargain with union organizers in "good faith"

ANS: B                      DIF: 3  
 NAT: AACSB Analytic

REF: Labor-Management Relations  
 MSC: KN

60. The Fair Labor Standards Act \_\_\_\_\_.
- a. legalized collective bargaining
  - b. outlawed union shops
  - c. outlawed secondary boycotts
  - d. established the federal minimum wage

ANS: D                      DIF: 2  
 NAT: AACSB Analytic

REF: Labor-Management Relations  
 MSC: KN

61. Beatrice is trying to resolve a labor dispute. She meets with both sides, makes a number of recommendations, and suggests a compromise. Beatrice is acting as a(n) \_\_\_\_\_ and \_\_\_\_\_ force a settlement.
- a. mediator; cannot
  - b. mediator; can
  - c. arbitrator; cannot
  - d. arbitrator; can

ANS: A                      DIF: 2  
 NAT: AACSB Reflective Thinking

REF: Labor-Management Relations  
 MSC: AP

62. A complaint that management is violating a provision of a union contract often results in \_\_\_\_\_.
- a. the filing of a grievance
  - b. a strike
  - c. mediation
  - d. a work slowdown

ANS: A                      DIF: 1  
 NAT: AACSB Analytic

REF: Labor-Management Relations  
 MSC: KN

63. Collective bargaining encompasses all of the following issues EXCEPT \_\_\_\_\_.

- a. employee wages
- b. investor relations
- c. employee seniority
- d. arbitration

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Labor-Management Relations  
MSC: KN

64. Evan is working on a labor dispute. He meets with both sides, listens to their proposals, and makes a decision on a new contract. Evan is acting as a(n) \_\_\_\_\_ and \_\_\_\_\_ force a settlement.
- a. mediator; cannot
  - b. mediator; can
  - c. arbitrator; cannot
  - d. arbitrator; can

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Labor-Management Relations  
MSC: AP

65. Who must approve the person selected as an arbitrator?
- a. Management only
  - b. Labor only
  - c. Management and labor
  - d. The federal government

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Labor-Management Relations  
MSC: KN

66. A union's ultimate tactic is a \_\_\_\_\_.
- a. strike
  - b. boycott
  - c. picket line
  - d. slowdown

ANS: A                      DIF: 1  
NAT: AACSB Analytic

REF: Labor-Management Relations  
MSC: KN

67. Nonviolent picketing is \_\_\_\_\_.
- a. legally protected free speech
  - b. legal only in states without right-to-work laws
  - c. legal only if workers are on strike
  - d. generally less effective than a strike since workers usually cross picket lines

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Labor-Management Relations  
MSC: KN

68. Cesar Chavez and the United Farm Workers Union used a \_\_\_\_\_ to encourage the public not to buy grapes grown with pesticides.
- a. strike
  - b. walkout
  - c. lockout
  - d. boycott

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Labor-Management Relations  
MSC: AP

69. Union workers at an auto parts plant go out on strike. In response, management closes the plant. This tactic is a \_\_\_\_\_.  
a. secondary boycott  
b. cooling-off period  
c. lockout  
d. strikebreaker

ANS: C                      DIF: 3                      REF: Labor-Management Relations  
NAT: AACSB Reflective Thinking                      MSC: AP

70. For U.S. unions, their biggest disappointment has been the inability to organize workers at \_\_\_\_\_.  
a. Wal-Mart  
b. Japanese-owned automobile plants in the U.S.  
c. high-tech corporations  
d. hospitals

ANS: A                      DIF: 3                      REF: Labor-Management Relations  
NAT: AACSB Reflective Thinking                      MSC: AP

### TRUE/FALSE

1. Human resource departments are responsible for forecasting sales and personnel requirements, as well as recruiting new employees.

ANS: F                      DIF: 1                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

2. Training and evaluating performance are core responsibilities for human resource management.

ANS: T                      DIF: 1                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

3. Administering personality assessment tests is a primary responsibility for human resource managers.

ANS: F                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

4. A firm's human resource plans and its competitive strategies are unrelated.

ANS: F                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

5. Human resource plans can affect the way a company adapts to new technology.

ANS: T                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

6. Human resource managers are responsible for creating a work environment that generates employee satisfaction.

ANS: T                      DIF: 1                      REF: Human Resource Management Is Vital to all Organizations  
OBJ: TYPE: KN      NAT: AACSB Analytic                      MSC: KN

7. Because of their role as staff managers, human resource managers formulate only short-term plans for their firm's workforce.

ANS: F                      DIF: 2                      REF: Human Resource Management Is Vital to all Organizations  
NAT: AACSB Analytic                      MSC: KN

8. Most firms prefer to hire people outside the company for new positions in order to bring in new ideas.

ANS: F                      DIF: 1                      REF: Recruitment and Selection  
NAT: AACSB Analytic                      MSC: KN

9. Hiring from within is usually less expensive than external recruitment in filling job vacancies.

ANS: T                      DIF: 2                      REF: Recruitment and Selection  
NAT: AACSB Analytic                      MSC: KN

10. Employers cannot legally reward workers with bonuses or prizes for employee referrals, even if they lead to new hires.

ANS: F                      DIF: 2                      REF: Recruitment and Selection  
NAT: AACSB Analytic                      MSC: KN

11. An inadvertent failure to comply with federal or state employment laws rarely leads to any significant penalties to the firm involved.

ANS: F                      DIF: 2                      REF: Recruitment and Selection  
NAT: AACSB Reflective Thinking                      MSC: AP

12. The Civil Rights Act of 1991 expanded the rights of discrimination victims to include damages for emotional distress.

ANS: T                      DIF: 2                      REF: Recruitment and Selection  
NAT: AACSB Diversity                      MSC: KN

13. Josh owns a trucking company and is interviewing potential drivers. Since Josh is responsible for the actions of his drivers, he is allowed to ask job candidates about their past experience with alcohol.

ANS: F                      DIF: 3                      REF: Recruitment and Selection  
NAT: AACSB Reflective Thinking                      MSC: AP

14. The Wonderlic test measures basic math and verbal skills, and is considered an effective way to determine whom to hire.

ANS: T                      DIF: 2                      REF: Recruitment and Selection  
NAT: AACSB Reflective Thinking                      MSC: AP

15. A company should view employee training as an ongoing process throughout each employee's tenure with the firm.

ANS: T                      DIF: 1                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Analytic                      MSC: KN

16. Apprenticeship training is a type of off-the-job training.

ANS: F                      DIF: 1                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Analytic                      MSC: KN

17. While computer-based training is usually cheaper than classroom training, it is also considered to be less effective.

ANS: F                      DIF: 2                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Reflective Thinking                      MSC: AP

18. Management development programs are designed to help non-supervisory employees become managers.

ANS: F                      DIF: 2                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Analytic                      MSC: KN

19. Benchmarking standards can be obtained from within a company, as well as outside management coaches.

ANS: T                      DIF: 3                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Reflective Thinking                      MSC: AP

20. More than half of all large U.S. companies use 360-degree performance reviews.

ANS: T                      DIF: 2                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Analytic                      MSC: KN

21. One advantage of 360-degree performance reviews is that they require less work for both employees and managers.

ANS: F                      DIF: 2                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Analytic                      MSC: KN

22. Not-for-profit organizations avoid performance appraisals since they are focused on corporate values.

ANS: F                      DIF: 2                      REF: Orientation, Training, and Evaluation  
NAT: AACSB Reflective Thinking                      MSC: AP

23. Wages that are too high may lead to a firm being noncompetitive.

ANS: T                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: kn

24. Salary is a term that represents compensation based on the number of hours worked.

ANS: F                      DIF: 1                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

25. Employees automatically receive raises after a designated period of time.

ANS: F                      DIF: 1                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

26. Federal labor legislation requires that firms provide employees with health insurance and childcare facilities.

ANS: F                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

27. California was the first state to have enacted paid family leave into law.

ANS: T                      DIF: 3                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

28. Contributions to cafeteria accounts are commonly made by both the employee and the employer.

ANS: T                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

29. Despite employers' efforts to implement flexible work plans, employees have not been receptive to these programs.

ANS: F                      DIF: 1                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

30. Flextime is a scheduling system that allows employees to select the day of the week on which they will work.

ANS: F                      DIF: 2                      REF: Compensation  
NAT: AACSB Analytic                      MSC: KN

31. All employees who leave an employer, whether it is voluntary or involuntary, are required to attend an exit interview.

ANS: F                      DIF: 2                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

32. Downsizing streamlines the organizational structure.

ANS: T                      DIF: 1                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

33. The two most common objectives of downsizing are to improve employee morale and to decrease costs.

ANS: F                      DIF: 2                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

34. Terminating poor performers is necessary because they lower productivity and employee morale.

ANS: T                      DIF: 1                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

35. Downsizing can have devastating effects on employee morale.

ANS: T                      DIF: 1                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

36. Outsourcing is defined as transferring jobs overseas.

ANS: F                      DIF: 2                      REF: Employee Separation  
NAT: AACSB Analytic                      MSC: KN

37. Employee surveys reveal that many workers are more interested in career security than job security.

ANS: T                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

38. A need produces goal-directed behavior.

ANS: F                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

39. Maslow believed that only unsatisfied needs influence behavior.

ANS: T                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

40. Self-actualization needs are those that drive people to seek fulfillment.

ANS: T                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

41. John received a company-wide award for his idea to improve worker safety. This award will help satisfy John's social needs.

ANS: F                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: AP

42. Sven believes in giving his employees challenging assignments so they can realize their own potential. Sven is attempting to satisfy his employee's self-actualization needs.

ANS: T                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Goal specificity is the extent to which people consciously understand and agree to goals.

ANS: F                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

44. Theory Y managers believe that workers avoid work when possible.

ANS: F                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Analytic                      MSC: KN

45. Madison thinks that employees must be closely supervised and controlled at all times. Madison is an example of a Theory Y manager.



ANS: F                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

46. Duane believes that worker involvement is the key to increased productivity. Duane's management philosophy is Theory Z.

ANS: T                      DIF: 2                      REF: Motivating Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

47. The Wagner Act legalized collective bargaining.

ANS: T                      DIF: 2                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

48. The Plant Closing Notification Act requires employers with more than 100 employees to give 90 days notice of a shutdown or massive layoff.

ANS: F                      DIF: 1                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

49. The strategy used by both unions and management is to make an initial set of demands with the expectation that these are merely starting points and will not likely be adopted.

ANS: T                      DIF: 2                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

50. Most union contracts are 5 to 10 years in length.

ANS: F                      DIF: 2                      REF: Labor-Management Relations  
OBJ: TYPE: KN      NAT: AACSB Analytic                      MSC: KN

51. A contract doesn't become legally binding until it is approved by the union membership.

ANS: T                      DIF: 1                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

52. A federal mediator does not serve as a decision maker.

ANS: T                      DIF: 1                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

53. Only a small percentage of labor-management contract negotiations involve a work stoppage.

ANS: T                      DIF: 2                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

54. Lynn is trying to resolve a labor dispute. She listens to both sides and makes suggestions trying to get the parties to come to an agreement. Lynn is acting as an arbitrator.

ANS: F                      DIF: 2                      REF: Labor-Management Relations  
NAT: AACSB Reflective Thinking                      MSC: AP

55. The number of strikes has risen sharply in recent years.

ANS: F                      DIF: 1                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

56. As long as picketing doesn't involve violence or intimidation it is considered to be a form of free speech.

ANS: T                      DIF: 1                      REF: Labor-Management Relations  
NAT: AACSB Analytic                      MSC: KN

57. There is little management can do to prevent employees from joining a union.

ANS: F                      DIF: 2                      REF: Labor-Management Relations  
NAT: AACSB Reflective Thinking                      MSC: AP

## Chapter 10—Improving Performance through Empowerment, Teamwork, and Communication

### MATCHING

*Complete the following using the terms listed.*

- a. high-context culture
  - b. affective conflict
  - c. performing stage
  - d. problem-solving team
  - e. noise
  - f. team level
  - g. encoding
  - h. self-managed team
  - i. grapevine
  - j. norming stage
  - k. team diversity
  - l. empowerment
  - m. cognitive conflict
  - n. external communication
  - o. listening
  - p. communication
  - q. team cohesiveness
1. A(n) \_\_\_\_\_ is a temporary combination of workers who gather together to resolve a specific issue and then disband.
  2. \_\_\_\_\_ is the average level of ability, experience, personality, or any other factor of a team.
  3. During the \_\_\_\_\_, team members resolve differences, accept each other, and reach broad agreement about the roles of team leader and other participants.
  4. In a(n) \_\_\_\_\_, communication depends not only on the message, but also on everything that surrounds it.
  5. A group of workers who are empowered with the authority to decide how its members complete their daily tasks is called a(n) \_\_\_\_\_.
  6. \_\_\_\_\_ refers to the emotional reactions that can occur when disagreements become personal rather than professional.
  7. The \_\_\_\_\_ is an internal channel that informally passes information from unofficial sources.
  8. \_\_\_\_\_ a message means that the sender translates its meaning into understandable terms.
  9. During the \_\_\_\_\_, team members focus on solving problems and accomplishing tasks.
  10. \_\_\_\_\_ is some type of interference during the communication process that influences the transmission of messages and feedback.
  11. \_\_\_\_\_ represents the variances in ability, experience, personality, or any other factor on a team.
  12. The meaningful exchange of information through messages is called \_\_\_\_\_.
  13. Managers promote \_\_\_\_\_ by giving employees authority and responsibility to make decisions about their work.
  14. \_\_\_\_\_ focuses on problem-related differences of opinion, and reconciling these differences to improve team performance.
  15. The skill of receiving a message and interpreting its genuine meaning is \_\_\_\_\_.
  16. \_\_\_\_\_ is a meaningful exchange of information through messages transmitted between an organization and its major audiences.
  17. \_\_\_\_\_ is the extent to which team members are attracted to the team and motivated to remain part of it.

- |     |   |        |  |
|-----|---|--------|--|
| 1.  | ANS: D                                    | DIF: 2 | REF: Teams                                     |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 2.  | ANS: F                                    | DIF: 2 | REF: p. 326                                    |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 3.  | ANS: J                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 4.  | ANS: A                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic   AACSB Communication |        | MSC: KN  |
| 5.  | ANS: H                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 6.  | ANS: B                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 7.  | ANS: I                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic   AACSB Communication |        | MSC: KN  |
| 8.  | ANS: G                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 9.  | ANS: C                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 10. | ANS: E                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 11. | ANS: K                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 12. | ANS: P                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 13. | ANS: L                                    | DIF: 2 | REF: Empowering Employees                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 14. | ANS: M                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |
| 15. | ANS: O                                    | DIF: 2 | REF: The Importance of Effective Communication |
|     | NAT: AACSB Analytic   AACSB Communication |        | MSC: KN  |
| 16. | ANS: N                                    | DIF: 2 | REF: External Communication: Crisis Management |
|     | NAT: AACSB Analytic   AACSB Communication |        | MSC: KN  |
| 17. | ANS: Q                                    | DIF: 2 | REF: Team Characteristics                      |
|     | NAT: AACSB Analytic                       |        | MSC: KN  |

## ESSAY

1. List three ways in which employers can empower employees. What is the relationship between empowerment and quality?

ANS:

Employers can empower employees by sharing company information (financial and business), sharing decision-making authority, and rewarding them based on company performance. Empowerment is an important component of quality programs. Empowerment seeks to tap the brainpower of all employees to find improved ways of doing their jobs and executing their ideas.

DIF: 2

REF: Empowering Employees

NAT: AACSB Reflective Thinking

MSC: AP

2. Explain the key differences between employee stock ownership plans and employee stock option plans.

ANS:

Both employee stock ownership plans (ESOPs) and stock options are ways of linking rewards to company performance. Both methods give employees a stake in the continuing prosperity of their companies through ownership. In an ESOP, the company buys shares of stock on behalf of employees as a retirement benefit. The accounts continue to grow in value tax-free, and when employees leave the company, they cash in their stock shares. Stock options give employees the right to buy shares of the company's stock at a specified price for a specified period of time. Unlike an ESOP, employees directly own the stock if they exercise their options.

DIF: 3                      REF: Empowering Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Describe the five types of teams in the workplace.

ANS:

The five types of teams are work teams, problem-solving teams, self-managed teams, cross-functional teams, and virtual teams. Work teams are permanent groups of co-workers who perform the day-to-day tasks necessary to operate the organization. Problem-solving teams are temporary groups of employees who gather to solve specific problems and then disband. Self-managed teams have the authority to make decisions about how their members complete their daily tasks. Cross-functional teams are made up of members from different functions, such as production, marketing, and finance. Virtual teams are groups of geographically or organizationally dispersed co-workers who use a combination of telecommunications and information technologies to accomplish an organizational task.

DIF: 3                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

4. Distinguish between a work team and a problem-solving team.

ANS:

A work team is a relatively permanent group of employees with complementary skills who perform the day-to-day work of the organization. A problem-solving team is a temporary combination of employees who gather to solve a specific problem and then disband. Like work teams, problem-solving teams self-manage their work. However, unlike work teams, which are permanent units designed to handle a variety of problems, problem-solving teams pursue specific missions.

DIF: 2                      REF: Teams  
NAT: AACSB Reflective Thinking                      MSC: AP

5. What is the ideal size for a team? What challenges do smaller or larger groups pose for team leaders?

ANS:

According to research, the ideal size for a team is about seven. A group of this size is big enough to benefit from a variety of diverse skills, yet small enough to allow members to communicate easily and feel part of a close-knit group. Groups that are smaller or larger pose different challenges for team leaders. Small groups often show a desire to get along with one another and tend to favor informal interactions marked by discussions of personal topics. Small groups may place few demands on team leaders. Leaders of large teams face a different set of challenges. Members of a large team may feel limited commitments to team goals. Disagreements, absenteeism and membership turnover, are more common in large teams than in small ones.

DIF: 3                      REF: Team Characteristics

6. Compare team level and team diversity. Which team is most effective for complex tasks?

ANS:

Team level is the average level of ability, experience, personality, or any other factor on a team. For example, a high level of team experience means that members have, on average, particular expertise in some area. Conversely, team diversity represents the variances or differences in the same areas. Team diversity is an important consideration for teams that must complete a wide range of different or particularly complex tasks. Additionally, diverse teams tend to display broader ranges of viewpoints and produce more innovative solutions.

DIF: 3

REF: Team Characteristics

NAT: AACSB Reflective Thinking | AACSB Diversity

MSC: AP

7. List the five stages of team development in the order in which they typically occur. What is the role of the team leader in each stage?

ANS:

The five stages are: forming stage, storming stage, norming stage, performing stage, and adjourning stage. The role of the team leader in the forming stage is to facilitate social interchanges; in the storming stage it is to encourage participation by all team members; in the norming stage it is to help clarify team roles, norms, and values; in the performing stage the team leader facilitates task accomplishment; and, in the adjourning stage the leader brings closure and signifies completion.

DIF: 3

REF: Team Characteristics

NAT: AACSB Analytic

MSC: KN

8. Describe the storming stage of team development. Why does a team have to move beyond the storming stage in order to be effective?

ANS:

During the storming stage, the personalities of team members begin to emerge as members clarify their roles and expectations. Conflicts may arise, as people disagree over the team's mission and attempt to gain control of the group. Subgroups may form based on common interests or concerns. With the help of the team leader, members must work through their uncertainties and conflicts. Unless they can resolve differences between them, accept each other, and reach consensus about the team's role, they cannot focus on productivity.

DIF: 3

REF: Team Characteristics

NAT: AACSB Reflective Thinking

MSC: AP

9. Explain the positive and negative effects of team norms.

ANS:

Team norms are informal standards that identify key values and clarify team members' expectations. These norms can be positive or negative. Positive norms contribute to constructive work and the accomplishment of team goals. Negative norms can result in reduced work effort, possible intimidation, and poor job attendance.

DIF: 2

REF: Team Characteristics

NAT: AACSB Reflective Thinking

MSC: AP

10. Distinguish between cognitive and affective conflict.

ANS:

Cognitive conflict focuses on problem-related differences of opinion and, when reconciled, strongly improves team performance. By contrast, affective conflict refers to the emotional reactions that can occur when disagreements become personal rather than professional. These differences strongly decrease team performance.

DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Describe the communication process. How does noise interfere with the communication process?

ANS:

Every communication follows a step-by-step process that involves interactions among six elements. They are the sender, message, channel (the communication carrier), audience (the person or persons who receive the message), feedback, and context. Noise interferes with the transmission of messages and feedback. Noise can result from physical factors, such as poor reception of a cell-phone message, or differences in people's attitudes and perceptions.

DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

12. Explain the differences in communication between high-context and low-context cultures.

ANS:

Low-context cultures tend to rely on direct, explicit written and verbal communications. Conversely, communication in high-context cultures depends not only on the message itself, but also on the conditions that surround it, including nonverbal cues, past and present experiences, and personal relationships between the parties.

DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

13. Compare formal and informal communication. What is the grapevine?

ANS:

Formal communication occurs within the formal chain of command defined by an organization. Informal communication occurs outside the organization's hierarchy. The grapevine is an informal communication channel that passes information from unofficial sources. Research shows that many employees cite the grapevine as their most frequent source of information.

DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

14. Explain the four types of listening behaviors.

ANS:

Cynical listening is a defensive type of listening and occurs when the receiver of a message feels that the sender is trying to gain some advantage from the communication. Offensive listening occurs when the receiver tries to catch the speaker in a mistake or contradiction. With polite listening, the receiver is usually inattentive and spends his or her time rehearsing a reply. Active listening requires involvement with the information and empathy with the speaker's situation.

DIF: 3                      REF: The Importance of Effective Communication

15. List the basic steps in managing a public relations crisis.

ANS:

To manage a public relations crisis, businesses should do the following: (1) respond quickly with a prepared statement; (2) immediately put top management in front of the press; (3) answer reporters' questions with facts; (4) offer to obtain answers not readily available; (5) avoid saying "no comment"; (6) identify and speak to the audience by using visual or word images instead of facts; (7) acknowledge problems and explain solutions.

DIF: 3

REF: External Communication: Crisis Management

NAT: AACSB Analytic | AACSB Communication

MSC: KN

### MULTIPLE CHOICE

1. Giving employees responsibility and authority to make decisions about their work is called \_\_\_\_\_.  
a. empowerment  
b. communication  
c. teamwork  
d. top-down management

ANS: A

DIF: 1

REF: Empowering Employees

NAT: AACSB Analytic

MSC: KN

2. Rajendra's company posts financial results on the company intranet. This sharing of information will \_\_\_\_\_ in employee empowerment and will have \_\_\_\_\_ on product quality.  
a. result; no impact  
b. result; a positive impact  
c. not result; no impact  
d. not result; a positive impact

ANS: B

DIF: 2

REF: Empowering Employees

NAT: AACSB Reflective Thinking

MSC: AP

3. All of the following is used to empower employees EXCEPT \_\_\_\_\_.  
a. sharing company information  
b. giving them decision-making authority about hiring decisions  
c. rewarding them based on company performance  
d. give them decision-making authority about company relocation

ANS: D

DIF: 1

REF: Empowering Employees

NAT: AACSB Analytic

MSC: KN

4. In many companies, shared decision-making authority extends to all of the following EXCEPT \_\_\_\_\_.  
a. purchasing supplies  
b. selecting members of the board of directors  
c. overseeing the safety program  
d. determining individual working hours

ANS: B

DIF: 2

REF: Empowering Employees

NAT: AACSB Analytic

MSC: KN



5. Stock option plans have all of the following characteristics EXCEPT \_\_\_\_\_.
- a. employees pay a set price to buy the shares of stock
  - b. employees receive the shares when the options are exercised
  - c. employers give the employees the options
  - d. stock options are provided as a retirement benefit

ANS: D                      DIF: 1                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

6. Microsoft and Home Depot have turned hundreds of their employees into millionaires by offering \_\_\_\_\_ as a company benefit.
- a. savings bonds
  - b. treasury bills
  - c. stock options
  - d. certificates of deposit

ANS: C                      DIF: 1                      REF: Empowering Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

7. A team consists of a group of people with \_\_\_\_\_ skills and \_\_\_\_\_ are responsible and accountable for accomplishing team objectives.
- complementary; all team members
  - complementary; team leaders
  - differing; all team members
  - differing; team leaders

ANS: A                      DIF: 3                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

8. Approximately two-thirds of U.S. firms currently utilize which type of team?
  - a. Work teams
  - b. Virtual teams
  - c. Self-managed teams
  - d. Cross-functional teams

ANS: A                      DIF: 2                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

9. Which of the following teams are semi-permanent and perform the day-to-day functions of the organization?
- a. Self-managed teams
  - b. Work teams
  - c. Problem-solving teams
  - d. Cross-functional teams

ANS: B                      DIF: 2                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

10. Danielle belongs to a temporary team that was created to resolve a specific issue and then disband at a later date. Danielle belongs to a \_\_\_\_\_ team.
- a. problem-solving
  - b. self-managed
  - c. cross-functional
  - d. work

ANS: A                      DIF: 2                      REF: Teams

11. Javier works for a home electronics store and is a member of a team created to increase communication among various departments. Javier has networked with new people and now has strong contacts for each department when he needs them. Javier is a member of a \_\_\_\_\_ team.
- cross-functional
  - virtual
  - work
  - problem-solving

ANS: A

DIF: 2

REF: Teams

NAT: AACSB Reflective Thinking

MSC: AP

12. Faith works in the bakery at Whole Foods Market. As part of a \_\_\_\_\_ team, she shares in the responsibility of managing her department's work schedule and ordering baking supplies.
- cross-functional
  - virtual
  - problem-solving
  - self-managed

ANS: D

DIF: 2

REF: Teams

NAT: AACSB Reflective Thinking

MSC: AP

13. All of the following statements concerning team size are correct EXCEPT:
- Small teams make the most demands on team leaders.
  - Large teams often suffer from disagreements, absenteeism, and membership turnover.
  - Small teams may lack sufficient diversity.
  - Large teams tend to work slower than small teams.

ANS: A

DIF: 2

REF: Team Characteristics

NAT: AACSB Analytic

MSC: KN

14. According to research on team effectiveness, the ideal team size is \_\_\_\_\_ members.
- fewer than five
  - between five and ten
  - between ten and twenty
  - more than twenty

ANS: B

DIF: 2

REF: Team Characteristics

NAT: AACSB Analytic

MSC: KN

15. Team diversity is often established in a \_\_\_\_\_ team, by bringing together the expertise of members from various functions in the organization.
- working
  - problem-solving
  - self-managed
  - cross-functional

ANS: D

DIF: 2

REF: Team Characteristics

NAT: AACSB Reflective Thinking | AACSB Diversity

MSC: AP

16. During the forming stage, what is the role of the team leader?
- Provide time for members to become acquainted
  - Encouraging participation
  - Clarifying team roles

d. Facilitating task accomplishment

ANS: A                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

17. Which stage of team development is marked by conflicts over the team's mission and the roles of team members?
- a. Forming stage
  - b. Norming stage
  - c. Storming stage
  - d. Performing stage

ANS: C                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

18. During which stage of team development does agreement about the role of the team leader and other participants occur?
- a. Forming stage
  - b. Norming stage
  - c. Storming stage
  - d. Performing stage

ANS: B                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: kn

19. During the performing stage, team members \_\_\_\_\_.
- a. resolve differences between them
  - b. clarify their roles and expectations
  - c. get to know one another
  - d. focus on solving problems

ANS: D                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

20. Jason's team has reached agreement about the role each member is expected to play. Jason's team has reached the \_\_\_\_\_ stage.
- a. forming
  - b. norming
  - c. storming
  - d. performing

ANS: B                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

21. Zoe is the leader of a problem-solving team. She is encouraging every member of the team to participate and work through conflicts. Zoe's team is likely in the \_\_\_\_\_ stage.
- a. storming
  - b. forming
  - c. norming
  - d. performing

ANS: A                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

22. Ingrid's team is handling conflicts in constructive ways and appears focused on accomplishing tasks. Ingrid's team is likely in which stage?

- a. Forming stage
- b. Norming stage
- c. Storming stage
- d. Performing stage

ANS: D                      DIF: 2                      REF: Team Characteristics  
 NAT: AACSB Reflective Thinking                      MSC: AP

23. At a celebratory gathering in a restaurant, Nicholas presents his team members with personal thank-you notes in appreciation for their hard work on a project. Nicholas and his team are in the \_\_\_\_\_ stage of team development.

- a. norming
- b. performing
- c. storming
- d. adjourning

ANS: D                      DIF: 2                      REF: Team Characteristics  
 NAT: AACSB Reflective Thinking                      MSC: AP

24. Mya's team is focused on accomplishing its task and has overcome previous conflicts that hindered the group dynamic. Mya is open to contributions from all members and is encouraging nonparticipating team members to get involved. Mya's team is currently in the \_\_\_\_\_ stage of team development.

- a. storming
- b. norming
- c. forming
- d. performing

ANS: D                      DIF: 2                      REF: Team Characteristics  
 NAT: AACSB Reflective Thinking                      MSC: AP

25. Vanessa wants to encourage interaction among her team members and is planning to move to an open office space without cubicle walls. Vanessa is trying to promote \_\_\_\_\_.

- a. team cohesiveness
- b. external communication
- c. empowerment
- d. team norm

ANS: A                      DIF: 2                      REF: Team Characteristics  
 NAT: AACSB Reflective Thinking                      MSC: AP

26. Pin-yuan is trying to promote the cohesiveness of his team. Which of the following would LEAST likely improve his team's cohesiveness?

- a. Encouraging his team members to work at home
- b. Redesigning their work space
- c. Increasing the interaction between team members
- d. Encouraging team members to socialize during and after working hours

ANS: A                      DIF: 2                      REF: Team Characteristics  
 NAT: AACSB Reflective Thinking                      MSC: AP

27. Samuel's company has an unwritten rule which implies that all managers must attend team meetings, no matter what projects they're working on. This informal standard of conduct constitutes which type of team?

- a. Team roles
- b. Team norm

- c. Team cohesiveness
- d. Team conflict

ANS: B                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

28. Greg is an operating room nurse and notices the head surgeon is exhausted and disoriented. Greg decides to speak up, even though his actions defy the team \_\_\_\_\_ that surgeons are always in control.
- a. standard
  - b. norm
  - c. belief
  - d. theory

ANS: B                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

29. Team norms are \_\_\_\_\_ and \_\_\_\_\_ standards of behavior.
- a. formal; written
  - b. informal; written
  - c. formal; unwritten
  - d. informal; unwritten

ANS: D                      DIF: 3                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: KN

30. Team conflict is formally defined as \_\_\_\_\_.
- a. antagonistic interaction in which one party attempts to thwart the intentions or goals of another
  - b. a team with a controlling leader
  - c. one team member who dominates the team to get his or her way
  - d. a dysfunctional team

ANS: A                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

31. Angie's marketing team disagrees on the way to advertise a product based on their past experiences. However, all members are attempting to reconcile their differences to produce an effective marketing strategy. Angie's team is experiencing \_\_\_\_\_ conflict.
- a. mutual
  - b. cognitive
  - c. affective
  - d. internal

ANS: A                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

32. Steve and Renee are city council members who vehemently disagree over a new zoning ordinance. Their arguments have become personal, and other council members are irritated and avoiding meetings. Steve and Renee need to resolve their \_\_\_\_\_ conflict.
- a. mutual
  - b. affective
  - c. internal
  - d. cognitive

ANS: B                      DIF: 2                      REF: Team Characteristics

33. \_\_\_\_\_ percent of the typically manager's day is spent engaged in communications.
- a. Less than 25
  - b. About 50
  - c. About 75
  - d. More than 75

ANS: D                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

34. The communication carrier is the \_\_\_\_\_.
- a. sender
  - b. receiver
  - c. channel
  - d. context

ANS: C                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

35. Jeremy announced to his accounting team that the company's financial reports should be completed "by next week." Subsequently, members of his team had completely different ideas about when the reports were due. At which stage of communication are the team members?
- a. Understanding the context
  - b. Message decoding
  - c. Providing feedback
  - d. Message encoding

ANS: B                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

36. Amanda sends an e-mail to her assistant requesting information for an upcoming meeting. Since her team is working on a variety of projects, Amanda is very specific about the materials she needs in order to avoid confusion. What is Amanda trying to do?
- a. Provide a context for the message
  - b. Encode the message
  - c. Decode the message
  - d. Eliminate the message's noise

ANS: B                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

37. Lisa works for an advertising agency and has presented her client with ideas for new commercials. After the presentation, Lisa asks for comments in order to obtain \_\_\_\_\_.
- a. a response
  - b. a decoded message
  - c. less noise
  - d. feedback

ANS: D                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

38. Feedback \_\_\_\_\_.
- a. helps determine whether a message was correctly interpreted
  - b. is generally verbal in nature

- c. is usually ambiguous
- d. helps lower the noise level

ANS: A                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

39. Which of the following countries would be considered a high-context culture?
- a. Argentina
  - b. United States
  - c. Germany
  - d. Switzerland

ANS: A                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

40. Japan is considered to be a \_\_\_\_\_ context country and thus, Japanese businesspeople place importance on \_\_\_\_\_ communications.
- a. high; both verbal and nonverbal
  - b. low; both verbal and nonverbal
  - c. high; explicit verbal
  - d. low; explicit verbal

ANS: A                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

41. Evan is listening to a voice message left by his manager, but he cannot understand most of it due to his manager's cell phone breaking up. Evan calls back his manager for the complete message since he cannot effectively communicate with this type of \_\_\_\_\_.
- a. conflict
  - b. grapevine
  - c. noise
  - d. nonverbal communication

ANS: C                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

42. William is listening to one of his fellow team members speak at a meeting. He believes she is just trying to get the team leader to adopt her idea. William is being a(n) \_\_\_\_\_ listener.
- a. offensive
  - b. cynical
  - c. polite
  - d. non

ANS: B                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

43. Oral communication is most effective when \_\_\_\_\_.
- a. both people are good speakers
  - b. at least one person is a good listener
  - c. gestures and facial expressions can be added to voice tone
  - d. the speaker stands very close to the listener

ANS: C                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

44. Ekisa and Ingrid like to send e-mail back and forth discussing their families and work-related issues. They are engaging in \_\_\_\_\_ and \_\_\_\_\_ communication.
- a. informal; written
  - b. informal; oral
  - c. formal; written
  - d. formal; oral

ANS: A                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication      MSC: AP

45. \_\_\_\_\_ listening is the basis for effective communication.
- a. Polite
  - b. Nonverbal
  - c. Active
  - d. Cynical

ANS: C                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

46. Office emails are a form of \_\_\_\_\_ communication.
- a. informal
  - b. written
  - c. formal
  - d. nonverbal

ANS: B                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

47. What is considered to be the biggest problem with email as a form of business communication?
- a. Using company email to send personal messages
  - b. Email is too informal for companies to convey a professional image
  - c. Email technology is still limited
  - d. Too much email

ANS: D                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

48. All of the following are examples of formal communication EXCEPT \_\_\_\_\_.
- a. a letter to a supplier
  - b. the grapevine
  - c. a telephone call with a customer
  - d. the employee benefits handbook

ANS: B                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

49. Lucia is a manager who regularly communicates company news with her employees via e-mail. This is an example of a(n) \_\_\_\_\_ communication channel.
- a. formal
  - b. informal
  - c. nonverbal
  - d. oral

ANS: A                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication      MSC: AP



50. Concerning the grapevine, all of the following statements are correct EXCEPT:

- a. The grapevine is an informal communication channel.
- b. Information on the grapevine is wrong most of the time.
- c. The grapevine is a frequent source of information for employees.
- d. Grapevines convey information rapidly.

ANS: B                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

51. All of the following are examples of nonverbal communication EXCEPT \_\_\_\_\_.

- a. informal speech
- b. eye contact
- c. clothing choices
- d. tone of voice

ANS: A                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

52. Which of the following is considered an upward communication channel?

- a. Posting notices on bulletin boards
- b. Giving employees policy manuals
- c. Completing an employee survey
- d. Reporting news in company newsletters

ANS: C                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

53. Two people are having a conversation and are standing about six feet apart. What zone are they in?

- a. Public zone
- b. Social zone
- c. Personal zone
- d. Intimate zone

ANS: B                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

54. In the United States, most business conversations occur within which zone?

- a. Public zone
- b. Social zone
- c. Personal zone
- d. Intimate zone

ANS: B                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

55. All of the following are examples of external communications EXCEPT:

- a. Annual reports to stockholders
- b. E-mails sent to sales representatives
- c. Sales presentations
- d. Information presented on a company's Web site

ANS: B                      DIF: 2                      REF: External Communications: Crisis Management  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

56. \_\_\_\_\_ communication with customers should create goodwill and contribute to customer satisfaction.

- a. Formal
- b. Written
- c. External
- d. Every

ANS: D                      DIF: 2                      REF: External Communications: Crisis Management  
 NAT: AACSB Analytic | AACSB Communication                      MSC: KN

57. What is the first step a company should do when responding to a crisis?
- a. Call or email members of the press to deny the story
  - b. Issue a “no comment”
  - c. Respond quickly with a prepared statement
  - d. Arrange a press conference with the company’s PR representative

ANS: C                      DIF: 2                      REF: External Communications: Crisis Management  
 NAT: AACSB Analytic | AACSB Communication                      MSC: KN

## TRUE/FALSE

1. An especially effective way of empowering employees is to share financial information about the organization with them.

ANS: T                      DIF: 1                      REF: Empowering Employees  
 NAT: AACSB Analytic                      MSC: KN

2. Advances in information technology have had little impact on employee empowerment.

ANS: F                      DIF: 2                      REF: Empowering Employees  
 NAT: AACSB Analytic                      MSC: KN

3. Employee empowerment rarely involves shared decision-making authority.

ANS: F                      DIF: 1                      REF: Empowering Employees  
 NAT: AACSB Analytic                      MSC: KN

4. Employee empowerment often extends to non-management employees who are given the authority to make decisions ranging from ordering office supplies to granting pay increases.

ANS: T                      DIF: 2                      REF: Empowering Employees  
 NAT: AACSB Reflective Thinking                      MSC: KN

5. One risk of using information technology to empower employees is that company records may reach competitors.

ANS: T                      DIF: 2                      REF: Empowering Employees  
 NAT: AACSB Analytic                      MSC: KN

6. Employee stock option plans and employee stock ownership plans are two names for essentially the same method of linking financial rewards to company performance.

ANS: F                      DIF: 2                      REF: Empowering Employees  
 NAT: AACSB Analytic                      MSC: KN

7. National Discount Tools set up a program that permits employees to buy shares of company stock at a fixed price. This company has an employee stock ownership plan.

ANS: F                      DIF: 2                      REF: Empowering Employees  
NAT: AACSB Reflective Thinking                      MSC: AP

8. Because employee stock ownership plans can be expensive to set up, they are more common in larger firms than in smaller ones.

ANS: T                      DIF: 3                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

9. Federal laws allow stock options to be granted to hourly and salaried employees.

ANS: T                      DIF: 2                      REF: Empowering Employees  
NAT: AACSB Analytic                      MSC: KN

10. Only team leaders are responsible and accountable for accomplishing their objectives.

ANS: F                      DIF: 2                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

11. All teams should include people with similar skills who are committed to a common purpose.

ANS: F                      DIF: 1                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

12. U.S. companies primarily use self-managed teams to achieve their business goals.

ANS: F                      DIF: 2                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

13. Work teams are relatively permanent, while problem-solving teams are temporary.

ANS: T                      DIF: 2                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

14. Jose is part of a temporary team that works together to solve a specific problem and then disband. Jose is part of a cross-functional team.

ANS: F                      DIF: 2                      REF: Teams  
NAT: AACSB Reflective Thinking                      MSC: AP

15. Flexibility is the primary advantage of virtual teams.

ANS: T                      DIF: 2                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

16. Although virtual teams use technology to communicate, members still meet face-to-face on a regular basis.

ANS: F                      DIF: 2                      REF: Teams  
NAT: AACSB Analytic                      MSC: KN

17. Effective teams almost always have more than 15 members.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

18. Informal interactions among group members are a specific characteristic of small teams.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

19. Team level represents the average level of the team while team diversity represents the variance and abilities of the team members.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic | AACSB Diversity                      MSC: KN

20. Absenteeism is more likely to be found in smaller teams.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

21. Not all teams actually pass through all five stages of team development.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

22. The primary role of the team leader in the forming stage is to encourage participation on the team tasks by all members of the team.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

23. Teams need to get beyond the storming stage in order to achieve any real results.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

24. During the norming stage, team members reach consensus about the roles of the team leader and other participants.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

25. During the storming stage, team members focus on solving problems.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

26. When team cohesiveness is low, morale suffers.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

27. A good way to encourage team cohesiveness is to encourage workers to socialize, but only off the job.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Reflective Thinking                      MSC: AP

28. Team norms are always positive because team members need structure and clear expectations.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

29. To be effective, team norms should be formal, written guidelines.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

30. The primary cause of team conflict is disagreement over team goals and priorities.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

31. Affective conflict enhances team performance by encouraging teams to reconcile differences to produce the best possible solution.

ANS: F                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

32. Cognitive and affective conflict can occur together in the same team.

ANS: T                      DIF: 2                      REF: Team Characteristics  
NAT: AACSB Analytic                      MSC: KN

33. Managers spend most of their time engaged in communications.

ANS: T                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

34. Most company recruiters rank job performance over communication skills.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

35. Regina's supervisor sends her an e-mail requesting updated financial figures as soon as possible. When Regina interprets the message as meaning by the end of the day, she is decoding the message.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

36. Feedback is often of little help in determining whether or not a message was decoded properly.

ANS: F                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

37. High-context cultures include the United States and Germany.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication

38. India is an example of a high-context culture.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

39. Noise during the communication process can be due to both physical factors and cultural differences between the sender and receiver.

ANS: T                      DIF: 1                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

40. Immediately after listening to a message, the average person can recall only half of it.

ANS: T                      DIF: 3                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

41. Even if it is never printed on paper, e-mail is considered to be a form of written communication.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

42. Polite listeners are attentive listeners.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

43. Sandra is conversing with her real estate agent, whom Sandra believes is trying to sell her an expensive property in order to receive a greater commission. Sandra is engaged in offensive listening.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

44. Silvia likes to send out a weekly e-mail to all her employees discussing the results and challenges for the week. This is an example of an informal communication.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Reflective Thinking | AACSB Communication                      MSC: AP

45. An employee suggestion box is an example of a formal communication channel.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

46. Many people in an organization receive a large part of their information through the grapevine. Unfortunately, the grapevine is widely regarded as an unreliable source of information.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication  
NAT: AACSB Analytic | AACSB Communication                      MSC: KN

47. "Spinning" bad news to make it look better almost always backfires.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication

NAT: AACSB Analytic | AACSB Communication

MSC: KN

48. When speaking during business conversations, Americans tend to stand closer together than Latin Americans.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication

NAT: AACSB Analytic | AACSB Communication

MSC: KN

49. When verbal and nonverbal cues conflict, receivers of the communication generally tend to believe the nonverbal content.

ANS: T                      DIF: 2                      REF: The Importance of Effective Communication

NAT: AACSB Analytic | AACSB Communication

MSC: KN

50. Customer orders are considered to be an internal communication.

ANS: F                      DIF: 2                      REF: The Importance of Effective Communication

NAT: AACSB Analytic | AACSB Communication

MSC: KN

51. An annual report to shareholders is an example of external communication.

ANS: T                      DIF: 2                      REF: External Communication: Crisis Management

NAT: AACSB Analytic | AACSB Communication

MSC: KN

52. A “no comment” response during a crisis is generally considered a statement of guilt.

ANS: T                      DIF: 2                      REF: External Communication: Crisis Management

NAT: AACSB Analytic | AACSB Communication

MSC: KN

- 53.

When responding during a crisis, it’s best to avoid visual images because they will undermine the seriousness of the situation.

ANS: F                      DIF: 2                      REF: External Communication: Crisis Management

NAT: AACSB Reflective Thinking | AACSB Communication

MSC: AP

## Chapter 11—Production and Operations Management

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### MATCHING

*Complete the following using the terms listed.*

- a. process layout
  - b. analytic production system
  - c. Gantt chart
  - d. PERT chart
  - e. production and operations management
  - f. flexible manufacturing system
  - g. critical path
  - h. computer-integrated manufacturing
  - i. utility
  - j. perpetual inventory
  - k. materials requirement planning
  - l. standardization
  - m. routing
  - n. assembly line
  - o. robot
  - p. just-in-time
  - q. benchmarking
  - r. synthetic production system
  - s. make, buy, or lease decision
- 
- 1. Managing people and machinery in converting materials and resources into finished goods and services is called \_\_\_\_\_.
  - 2. The third component of mass production, \_\_\_\_\_, involves producing uniform, interchangeable goods and parts.
  - 3. A(n) \_\_\_\_\_ groups machinery and equipment according to their functions.
  - 4. Many firms maintain \_\_\_\_\_ systems to continually monitor the amounts and locations of their merchandise.
  - 5. A(n) \_\_\_\_\_, one of the oldest analytical methods for help with scheduling, tracks projected and actual work progress over time.
  - 6. The sequence of operations that require the longest time for completion is known as the \_\_\_\_\_.
  - 7. Firms create \_\_\_\_\_, or want-satisfying power, by converting raw materials and other inputs into finished goods and services.
  - 8. \_\_\_\_\_ is a production system in which computers help workers design products, control machines, and handle materials.
  - 9. A(n) \_\_\_\_\_ reduces a raw material to its component parts in order to extract one or more marketable products.
  - 10. \_\_\_\_\_ is a computer-based production planning system that ensures a firm has all the parts and materials it needs to produce its output at the right time and place, and in the right amounts.
  - 11. A complex project might require a(n) \_\_\_\_\_, which seeks to minimize delays by coordinating all aspects of the production process.
  - 12. A(n) \_\_\_\_\_ is a production facility that workers can quickly modify to manufacture different products.
  - 13. A(n) \_\_\_\_\_ is a programmable machine capable of performing a variety of jobs that require manipulation of materials and tools.
  - 14. The logical extension of specialization, mechanization, and standardization led to the development of the \_\_\_\_\_.
  - 15. A(n) \_\_\_\_\_ transforms raw materials into finished products.



16. An inventory system that tries to keep inventory on hand to a minimum, and seeks to eliminate all sources of waste, is called a(n) \_\_\_\_\_ system.
17. \_\_\_\_\_ determines the sequence of work throughout the facility and specifies who will perform each aspect of work at what location.
18. The process of determining how well other companies perform business functions or tasks is called \_\_\_\_\_.
19. The \_\_\_\_\_ is the first step in a company's production plan.

- |                       |        |  |
|-----------------------|--------|--|
| 1. ANS: E             | DIF: 2 | REF: Strategic Importance of the Production Function |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 2. ANS: L             | DIF: 2 | REF: Strategic Importance of the Production Function |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 3. ANS: A             | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 4. ANS: J             | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 5. ANS: C             | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 6. ANS: G             | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 7. ANS: I             | DIF: 2 | REF: Chapter Opener                                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 8. ANS: H             | DIF: 2 | REF: Technology and the Production Process           |
| NAT: AACSB Technology |        | MSC: KN  |
| 9. ANS: B             | DIF: 2 | REF: Production Processes                            |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 10. ANS: K            | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 11. ANS: D            | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 12. ANS: F            | DIF: 2 | REF: Technology and the Production Process           |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 13. ANS: O            | DIF: 2 | REF: Technology and the Production Process           |
| NAT: AACSB Technology |        | MSC: KN  |
| 14. ANS: N            | DIF: 2 | REF: Strategic Importance of the Production Function |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 15. ANS: R            | DIF: 2 | REF: Chapter Opener                                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 16. ANS: P            | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 17. ANS: M            | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 18. ANS: Q            | DIF: 2 | REF: Importance of Quality                           |
| NAT: AACSB Analytic   |        | MSC: KN  |
| 19. ANS: S            | DIF: 2 | REF: The Job of Production Managers                  |
| NAT: AACSB Analytic   |        | MSC: KN  |

## ESSAY

1. How can effective production and operations management benefit a firm?

ANS:

The production process is vital to the success of a firm. Production and operations managers coordinate the creation of goods and services that generate profits for the firm. Efficient management of the production process can lower costs of production, improve product quality, help the firm respond dependably to the demands of customers, and increase its ability to respond to changing demands or competitive conditions.

DIF: 3 REF: Strategic Importance of the Production Function

NAT: AACSB Reflective Thinking MSC: AP

2. Describe the differences between mass production, flexible production, and customer-driven production.

ANS:

Mass production is a system for manufacturing products in large amounts through effective combinations of employees with specialized skills, mechanization, and standardization. Mass production makes outputs available in large quantities at lower prices than individually crafted items would cost. While mass production efficiently creates large batches of similar items, flexible production can cost-effectively produce smaller batches. Flexible production generally involves using information technology to share the details of customer orders, programmable equipment to fulfill the orders, as well as skilled people to carry out whatever tasks are needed. Customer-driven production systems evaluate customer demands in order to link what a manufacturer makes with what customers want to buy. One method is to establish computer links between factories and retailers' systems, using data about sales as the basis for creating short-term forecasts and designing production schedules to meet those forecasts. Another is to make products specifically to order.

DIF: 3 REF: Strategic Importance of the Production Function

NAT: AACSB Reflective Thinking MSC: AP

3. How are production processes classified? Give an example of each.

ANS:

The means of operating may involve either an analytic system or a synthetic system. An analytic system reduces a raw material into its component parts in order to extract one or more products. An example would be petroleum refining. A synthetic system combines a number of raw materials, or parts, or transforms raw materials to produce finished products. The manufacturing of a commercial aircraft is an example of a synthetic system. A continuous production process generates finished products over a period of time in long production runs, such as automobile assembly. An intermittent production process generates products in short production runs. Most services are the result of intermittent production processes.

DIF: 3 REF: Production Processes

NAT: AACSB Reflective Thinking MSC: AP

4. Discuss computer-aided design and computer-aided manufacturing.

ANS:

Computer-aided design (CAD) allows engineers to design products on computer screens faster and with fewer mistakes than they could achieve working with traditional drafting systems. Using an electronic pen, an engineer can sketch 3-D designs on an electronic drafting board or directly on the screen. The computer also provides tools to make design changes and to analyze the design for certain characteristics and problems. Computer-aided manufacturing (CAM) picks up where CAD leaves off. Computer tools enable a manufacturer to analyze the steps that a machine must take to produce a needed product or part. Electronic signals transmitted to processing equipment provide instructions for performing the appropriate production steps in the correct order.

DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

5. Describe a flexible manufacturing system.

ANS:

A flexible manufacturing system is a facility that can be changed quickly to manufacture different products. Computers are used to control machinery, while robots are used to produce and transport parts and materials. Robots can even be programmed to replace drills, blades, and other parts of machines without using humans to perform these functions. Flexible manufacturing systems have been enhanced by powerful new software that allows machine tools to be reprogrammed while they are running.

DIF: 3                      REF: Technology and the Production Process                      NAT: AACSB Technology  
MSC: KN

6. What are the three factors in the facility location decision? Give examples of businesses most affected by each individual factor.

ANS:

The three factors are transportation (including proximity to markets, proximity to raw materials, and the availability of transportation alternatives), human factors (the labor supply, local regulations, and community living conditions), and physical factors (water supply, energy, and hazardous waste and other environmental issues). Businesses affected by transportation factors include hotels (proximity to markets) and mining companies (proximity to raw materials). Businesses affected by human factors include software manufacturers (labor supply). Businesses affected by physical factors include paper mills (water supply) and chemical manufacturers (energy).

DIF: 3                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

7. What is the purpose of an environmental impact study, and how does it influence a plant's location decision?

ANS:

The purpose of an environmental impact study is to analyze how a proposed plant would affect the quality of life in the surrounding area. Possible effects include transportation facilities, energy requirements, water and sewage treatment needs, natural plant life and wildlife. Water, air, and noise pollution are also studied.

DIF: 2                      REF: The Location Decision                      NAT: AACSB Reflective Thinking  
MSC: AP

8. Describe the major tasks of production and operations managers.

ANS:

Production and operations managers oversee the work of people and machinery to convert inputs -- raw materials and other resources -- into finished goods and services. They perform four major tasks. First, they plan the overall production process. Next, they determine the best layout for the firm's production facilities and implement the production plan. Finally, they control the production process to maintain the highest possible quality. Part of the control process involves continuous evaluation of results. If problems occur, managers return to the first step and adjust the process.

DIF: 3                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

9. Discuss the basic types of layouts for manufacturing facilities.

ANS:

The basic types of layouts for manufacturing facilities are process layouts, product layouts, and fixed-position layouts. The process layout accommodates a variety of nonstandard products in relatively small batches. A product layout design accommodates a few products in relatively large quantities. A fixed-position layout locates the product in a fixed position. Workers, materials, and machines are transported to and from it.

DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

10. Discuss the factors a firm should consider when deciding whether to make, buy, or lease components.

ANS:

One of the fundamental issues facing every producer is the make, buy, or lease decision -- choosing whether to manufacture a needed product or component in-house, purchase it from an outside supplier, or lease it. Some of the factors to consider include the costs of leasing or purchasing parts from outside suppliers compared with the costs of producing them in-house. The decision sometimes hinges on the availability of outside suppliers that can dependably meet standards for quality and quantity. The need for confidentiality sometimes affects the decision, as does the short- or long-term duration of the firm's needs for supplies.

DIF: 3                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Once a company decides what raw materials and component parts to purchase, what factors do production managers use for comparison in choosing the best supplier?

ANS:

Production managers compare the quality, prices, availability, and services offered by competing suppliers. Different vendors may offer virtually identical quality levels and prices, so choices often depend on factors such as the firm's previous experience with each supplier, speed of delivery, warranties on purchases, and other services. Long-term contracts may also be a factor.

DIF: 2                      REF: The Job of Production Managers                      NAT: AACSB Analytic  
MSC: KN

12. Explain why it's essential for managers to seek a balance when controlling inventory.

ANS:

The task of inventory control is to balance the need to maintain adequate supplies against the need to minimize funds invested in inventory. Excessive inventory results in unnecessary expenditures for warehousing, taxes, insurance, and maintenance. Conversely, inadequate inventory may mean production delays, lost sales, and inefficient operations. Managers must balance the need to keep merchandise on hand to meet demand against the costs of carrying inventory.

DIF: 2 REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking MSC: AP

13. Describe just-in-time (JIT) inventory systems.

ANS:

Just-in-time (JIT) inventory systems seek to eliminate all sources of waste (anything that does not add value) in operations activities by providing the right part at the right place and at the right time. Compared with traditional production, this program reduces inventory and costs as it improves the quality of goods and services. Not only do JIT systems lower factory inventory levels and inventory carrying costs, JIT systems also enable firms to respond quickly to changes in the market.

DIF: 2 REF: The Job of Production Managers NAT: AACSB Analytic  
MSC: KN

14. Discuss the five steps in production control.

ANS:

The five steps in production control are planning, routing, scheduling, dispatching, and follow-up. Production planning determines the amount of resources that are needed to produce a certain amount of goods and services. Routing specifies where and by whom each aspect of production will be performed. Scheduling involves developing timetables that specify how long it will take to perform each operation and when it will be performed. Dispatching instructs each department on what to do and the time allowed for its completion. The follow-up phase spots problems in the production process and informs management of needed adjustments.

DIF: 3 REF: The Job of Production Managers  
NAT: AACSB Analytic MSC: KN

15. Explain the concept of benchmarking.

ANS:

Benchmarking is an important part of a quality control program. Benchmarking determines how well other companies (not just competitors) perform business functions or tasks. It's the process of establishing other companies' standards and best practices.

DIF: 2 REF: Importance of Quality NAT: AACSB Analytic  
MSC: KN

16. What is ISO certification? What are the advantages of a product having ISO 9000 certification?

ANS:

ISO certification signifies that a product has met a set of requirements for quality processes. These standards define how a company should ensure that its products meet customer requirements. Studies show that customers prefer to buy from companies that are specifically ISO 9000 certified (where companies must undergo an on-site audit). Companies, in turn, believe that being ISO 9000 certified helps them retain customers who might otherwise leave to work with an ISO 9000-certified corporation.

DIF: 2                      REF: Importance of Quality  
NAT: AACSB Analytic                      MSC: KN

### **MULTIPLE CHOICE**

1. The want-satisfying power of a good or service is called \_\_\_\_\_.  
a. quality  
b. ownership  
c. worth  
d. utility

ANS: D                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Analytic                      MSC: KN

2. Guardian uses raw materials and other inputs to make glass. Through the production process, Guardian is creating \_\_\_\_\_ utility.  
a. time  
b. production  
c. form  
d. ownership

ANS: C                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

3. \_\_\_\_\_ is the use of people and machinery to convert materials into finished goods or services.  
a. Manufacturing  
b. Production  
c. Distribution  
d. Marketing

ANS: B                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Analytic                      MSC: KN

4. When a food manufacturer uses people and machinery to convert dough and cheese into frozen pizza, the manufacturer is practicing \_\_\_\_\_.  
a. time utility  
b. distribution  
c. production  
d. process utility

ANS: C                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

5. What is the task of production and operations management?  
a. To determine the most economical routes for transporting the firms' products  
b. To manage the use of people and machinery in converting materials and resources into finished goods and services  
c. To manage the use of people and other resources in the development of distribution channels and promotional strategies  
d. To design systems that will provide managers with information useful for decision making

ANS: B                      DIF: 3                      REF: Chapter Opener  
NAT: AACSB Analytic                      MSC: KN

6. When the editors of *Contemporary Business* use computers, paper, and human effort to create the new edition of a text, they are engaged in \_\_\_\_\_.
- a. production
  - b. marketing
  - c. creating time utility
  - d. creating possession utility

ANS: A                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

7. Which of the following are combined to result in mass production?
- a. Mechanization, specialized labor, and robots
  - b. Standardization, job-order production, and specialized labor
  - c. Analytic systems, synthetic systems, and continuous processes
  - d. Mechanization, specialized labor, and standardization

ANS: D                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

8. The production manager in a manufacturing company divides employee work into small segments made up of repetitious tasks. The manager is involved in \_\_\_\_\_.
- a. specialization
  - b. standardization
  - c. mechanization
  - d. quality management

ANS: A                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Reflective Thinking                      MSC: AP

9. Which of the following statements about standardization is NOT correct?
- a. Standardization is used as the basis for custom-made machinery.
  - b. The availability of standardized parts makes possible the replacement of defective and worn-out components.
  - c. Standardized parts can reduce the cost of repairs.
  - d. Standardized parts can be produced in quantity and assembled later.

ANS: A                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

10. \_\_\_\_\_ revolutionized the factory by introducing the moving assembly line.
- a. Frederick Taylor
  - b. Alfred Sloan
  - c. Henry Ford
  - d. Henry Gantt

ANS: C                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

11. Grocery stores use scanners not only for faster check-out times, but as a tool to obtain merchandise sales data and create short-term forecasts. This system is known as \_\_\_\_\_ production.
- a. product-focused
  - b. quality control
  - c. data marketing
  - d. customer-driven

ANS: D                      DIF: 2                      REF: Strategic Importance of the Production Function

12. A production system that reduces a raw material to its component parts in order to extract one or more marketable products is a(n) \_\_\_\_\_ production system.
- synthetic
  - intermittent
  - analytic
  - flexible

ANS: C

DIF: 2

REF: Production Processes

NAT: AACSB Analytic

MSC: KN

13. Which production system combines a number of raw materials or parts into a finished product, or changes raw materials into completely different finished products?
- Extractive
  - Intermittent
  - Unified
  - Synthetic

ANS: D

DIF: 2

REF: Production Processes

NAT: AACSB Analytic

MSC: KN

14. Which production system is Smith-Kline Beecham using when it combines calcium carbonate, simethicone, corn syrup, and other ingredients to make Tums Plus?
- Service
  - Analytic
  - Synthetic
  - Extractive

ANS: C

DIF: 2

REF: Production Processes

NAT: AACSB Reflective Thinking

MSC: AP

15. Which production process describes a manufacturing operation in which long production runs generate finished products over a period of time?
- Continuous
  - Intermittent
  - Customized
  - Periodic

ANS: A

DIF: 2

REF: Production Processes

NAT: AACSB Analytic

MSC: KN

16. An oil refinery is an example of a(n) \_\_\_\_\_ production system.
- analytic
  - intermittent
  - continuous
  - synthetic

ANS: C

DIF: 2

REF: Production Processes

NAT: AACSB Reflective Thinking

MSC: AP

17. Publishers always keep a certain number of books in inventory to fill orders. Therefore, publishers are involved in \_\_\_\_\_ production.
- intermittent
  - continuous



- c. custom
- d. job-order

ANS: A                      DIF: 2                      REF: Production Processes  
NAT: AACSB Reflective Thinking                      MSC: AP

18. A(n) \_\_\_\_\_ is a re-programmable machine that is capable of performing a variety of tasks requiring programmed manipulation of materials and tools.
- a. personal computer
  - b. hand tool
  - c. assembly line
  - d. robot

ANS: D                      DIF: 2                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

19. All of the following statements concerning robots are correct EXCEPT:
- a. The cost of robots has risen sharply in recent years as they have become more sophisticated.
  - b. A variety of industries are now using robot technology.
  - c. Robots have freed people from boring, dangerous assignments.
  - d. Robots assist humans in non-manufacturing tasks.

ANS: A                      DIF: 2                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

20. Engineers at DaimlerChrysler use computers to build new car models in the virtual world before they are ever built in automobile plants. These engineers are using \_\_\_\_\_.
- a. computer-aided manufacturing
  - b. flexible manufacturing systems
  - c. computer-aided design
  - d. computer-integrated manufacturing

ANS: C                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

21. The process that enables manufacturers to use computers to analyze the steps a machine must take to produce a product or part is \_\_\_\_\_.
- a. computer-aided manufacturing
  - b. Program Evaluation and Review Technique
  - c. computer-aided design
  - d. computer-integrated manufacturing

ANS: A                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

22. Composite Technology uses a computer to control its production process. The computer transmits signals to machines for performing the appropriate steps in the correct order. What system is Composite Technology using?
- a. Computer-aided design
  - b. Computer-aided manufacturing
  - c. Flexible manufacturing
  - d. Computer-integrated manufacturing

ANS: B                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

23. Model Ball Bearing Company produces 30 basic types of ball bearings. Its manufacturing system uses computer-controlled machining centers, robots, and remote-controlled carts to deliver materials. In addition, the system can be modified quickly to produce the different ball bearings. The manufacturing system that is described is a \_\_\_\_\_ system.
- a. computer-aided design
  - b. static manufacturing
  - c. synthetic manufacturing
  - d. flexible manufacturing

ANS: D                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

24. Florida Fixtures uses a computer system that controls the entire production function from designing products to ordering raw materials. What kind of production system is Florida Fixtures using?
- a. Flexible manufacturing system
  - b. Computer-aided design
  - c. Computer-integrated manufacturing
  - d. Computer-aided manufacturing

ANS: C                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

25. Which of the following would probably be the most important consideration in determining where to locate a petroleum refinery?
- a. Physical characteristics
  - b. Proximity to raw materials
  - c. Labor supply
  - d. Location of customers

ANS: B                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

26. In selecting a production facility location, proximity to raw materials would be most important to which of the following?
- a. Steel manufacturer
  - b. Jewelry manufacturer
  - c. Electronics company
  - d. Automobile parts manufacturer

ANS: A                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Which company would be most interested in locating in an area close to their market?
- a. Sheet rock manufacturer
  - b. Shipbuilding company
  - c. Dry cleaner
  - d. Pharmaceutical company

ANS: C                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

28. Tamara is the owner of a bakery with all perishable products. What will be her primary consideration in regard to location?
- a. Proximity to raw materials

- b. Proximity to her market
- c. Availability of transportation alternatives
- d. Proximity to labor supply

ANS: B                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

29. Computer chip manufacturers, such as Intel, must be primarily concerned with \_\_\_\_\_.
- a. Availability water supply
  - b. Labor supply
  - c. Proximity to markets
  - d. Availability to energy

ANS: A                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

30. Many electronics firms are located in California's Silicon Valley because of the \_\_\_\_\_.
- a. climate and moderate humidity, which is necessary for production
  - b. level of skilled personnel
  - c. proximity to raw materials
  - d. inexpensive transportation

ANS: B                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Analytic                      MSC: KN

31. Why have some companies set up assembly plants outside of the United States?
- a. Nearness to raw materials
  - b. Available marketing opportunities
  - c. Inexpensive energy
  - d. Low labor costs

ANS: D                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Analytic                      MSC: KN

32. Waste Disposal wants to build a landfill in northern Oakland County. The company must conduct a(n) \_\_\_\_\_ study, which includes analyzing the effect the landfill might have on the water supply, air conditions, and wildlife.
- a. market impact
  - b. consumer behavior
  - c. location feasibility
  - d. environmental impact

ANS: D                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

33. All of the following are primary tasks of production managers EXCEPT \_\_\_\_\_.
- a. planning the production process
  - b. selecting the most appropriate layout
  - c. controlling the production process
  - d. determining what products to produce

ANS: D                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

34. Which of the following production manager tasks is completed first?
- a. Selecting the appropriate layout

- b. Determining what products to produce
- c. Planning the production process
- d. Implementing the production process

ANS: C                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

35. What is the first step to planning a production process?
- a. Choosing what goods or services to offer customers
  - b. Selecting the right supplier
  - c. Determining the appropriate level of inventory
  - d. Hiring employees

ANS: A                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

36. Traditionally, automobile assembly plants were set up with a \_\_\_\_\_ layout.
- a. product
  - b. process
  - c. fixed-position
  - d. customer-oriented

ANS: A                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

37. The production facility for a space shuttle would probably be organized according to a \_\_\_\_\_ layout.
- a. customer-oriented
  - b. process
  - c. fixed-position
  - d. product

ANS: C                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

38. A firm that produces a variety of nonstandard products in relatively small quantities would probably use a \_\_\_\_\_ layout.
- a. customer-oriented
  - b. process
  - c. product
  - d. fixed-position

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

39. Which of the following layouts would be appropriate for manufacturers of bulky, heavy, or fragile products?
- a. Process layout
  - b. Fixed-position layout
  - c. Customer-oriented layout
  - d. Product layout

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

40. Which of the following layouts would be appropriate for a manufacturer who needs to produce large numbers of a single product?
- a. Product layout
  - b. Process layout
  - c. Fixed-position layout
  - d. Customer-oriented layout

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Job of Production Managers  
MSC: KN

41. A plant where plastic 2-liter bottles are manufactured probably uses a \_\_\_\_\_ layout.
- a. customer-oriented
  - b. product
  - c. process
  - d. fixed-position

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The Job of Production Managers  
MSC: AP

42. A law firm most likely utilizes a \_\_\_\_\_ layout.
- a. customer-oriented
  - b. product
  - c. process
  - d. fixed-position

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The Job of Production Managers  
MSC: AP

43. Implementing a production plan involves all of the following steps EXCEPT \_\_\_\_\_.
- a. creating a feasible budget
  - b. controlling inventory
  - c. selecting the best suppliers for materials
  - d. deciding whether to make, buy or lease components

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Job of Production Managers  
MSC: KN

44. How can a firm best protect themselves against an interruption in the supply of parts?
- a. Transport the parts in its own transportation vehicles.
  - b. Maintain more than one supply source.
  - c. Use suppliers from the city where the firm is located.
  - d. Select suppliers through a competitive bidding process.

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The Job of Production Managers  
MSC: AP

45. Which of the following would most likely be purchased on a long-term contractual basis?
- a. High-fashion clothing
  - b. Office supplies purchased in small amounts
  - c. A custom-made machine
  - d. Raw materials

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: The Job of Production Managers  
MSC: KN

46. The Omega Corporation's supplier has offered the company a 5 percent discount if it will order more units less frequently. If Omega accepts the supplier's offer, the cost of carrying inventory will \_\_\_\_\_ and the cost of stockouts (running out of inventory) will \_\_\_\_\_.
- a. rise; decrease
  - b. rise; stay the same
  - c. fall; decrease
  - d. fall; stay the same

ANS: A                      DIF: 3                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

47. All of the following expenses are involved in storing inventory EXCEPT \_\_\_\_\_.
- a. maintenance
  - b. acquisition
  - c. insurance
  - d. warehouse rent

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

48. Snyder Industries uses 100,000 widgets each year. If Snyder decides to place more orders each year, ordering fewer widgets each time, Snyder will be carrying \_\_\_\_\_ inventory on average and the risk of stockouts (running out of inventory) will \_\_\_\_\_.
- a. more; fall
  - b. more; rise
  - c. less; fall
  - d. less; rise

ANS: D                      DIF: 3                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

49. Tidewater Company uses 100,000 pounds of fresh flowers each year. Because of rising energy costs, it has become more expensive for Tidewater to store flowers. All other factors being equal, Tidewater should \_\_\_\_\_ its inventory of fresh flowers, which would \_\_\_\_\_ the risk of stockouts (running out of inventory).
- a. reduce; have no effect on
  - b. increase; have no effect on
  - c. reduce; increase
  - d. increase; increase

ANS: C                      DIF: 3                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

50. Which of the following would present a challenge for a just-in-time (JIT) investment system?
- a. Vendor managed inventory
  - b. Sudden increase in demand
  - c. Increase in the number of suppliers
  - d. Long-term relationships with suppliers

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

51. \_\_\_\_\_ is a computer-based production planning system by which a firm can ensure that it has needed parts and materials available at the right time and place and in the correct amounts.
- a. Materials requirement planning

- b. Just-in-time inventory system
- c. Computer-aided manufacturing
- d. Vendor-managed inventory

ANS: A                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

52. When Best Buy vendors ship merchandise directly to stores instead of distribution centers, the company is utilizing \_\_\_\_\_.
- a. inventory control
  - b. perpetual inventory
  - c. vendor-managed inventory
  - d. production control

ANS: C                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

53. Isaac's job involves setting up well-designed procedures for coordinating people, materials, and machinery for the production of mesh filters. Isaac is involved in \_\_\_\_\_.
- a. inventory control
  - b. facility design
  - c. production control
  - d. manufacturing resource planning (MRP II)

ANS: C                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

54. Which phase of production control determines the amount of all resources needed to produce a certain amount of goods and services?
- a. Scheduling
  - b. Dispatching
  - c. Production planning
  - d. Routing

ANS: C                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

55. \_\_\_\_\_ is the phase of production control that determines the sequence of work and specifies where and by whom each aspect of production will be performed.
- a. Follow-up
  - b. Routing
  - c. Scheduling
  - d. Dispatching

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

56. A Gantt chart is associated with which step in production control?
- a. Routing
  - b. Scheduling
  - c. Dispatching
  - d. Follow-up

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

57. Elijah is a warehouse production manager and has been assigned a complex project that might result in lengthy delays. In order to coordinate all aspects of the production process, Elijah has created a(n) \_\_\_\_\_ chart.
- a. Gantt
  - b. ISO
  - c. PERT
  - d. FMS

ANS: C                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

58. The critical path in a PERT chart represents the \_\_\_\_\_.
- a. areas of operations that require the least amount of technical support
  - b. areas of operations that have abundant and extra time
  - c. sequence of operations that involves outside suppliers
  - d. sequence of operations that requires the longest time for completion

ANS: D                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

59. Part of Vicky's job as a production supervisor is to instruct each department on what work to do and the time in which they have to complete their work assignments. This part of her job is known as \_\_\_\_\_.
- a. routing
  - b. dispatching
  - c. scheduling
  - d. planning

ANS: B                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

60. The last step in production control is to spot problems in the production process and inform management of needed adjustments. This phase is called \_\_\_\_\_.
- a. follow-up
  - b. evaluation
  - c. process control
  - d. dispatching

ANS: A                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

61. When choosing an appropriate vendor, production managers consider all of the following EXCEPT \_\_\_\_\_.
- a. dispatching
  - b. warranties on purchases
  - c. delivery dependability
  - d. services from competing companies

ANS: A                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

62. A firm can monitor quality level output in all of the following ways EXCEPT \_\_\_\_\_.
- a. customer surveys
  - b. electronic sensors
  - c. visual inspections



d. share of marketplace

ANS: D DIF: 2

REF: Importance of Quality

NAT: AACSB Analytic

MSC: KN

63. Companies that use the Six Sigma concept are trying to reduce defects to \_\_\_\_\_ percent of total production.
- five-sixths of one
  - three
  - one
  - less than one tenth of one

ANS: D DIF: 2

REF: Importance of Quality

NAT: AACSB Analytic

MSC: KN

64. When a company looks to an established, superlative product as a guide for their new product, they are \_\_\_\_\_.
- implementing quality control
  - forecasting
  - implementing quality standards
  - benchmarking

ANS: D DIF: 2

REF: Importance of Quality

NAT: AACSB Reflective Thinking

MSC: AP

65. The \_\_\_\_\_ was established to promote the development of standardized products to facilitate trade and cooperation across national borders. These standards have now become a widely recognized quality model throughout the world.
- European Economic Community
  - International Organization for Standardization
  - WTO
  - NATO Business Alliance

ANS: B DIF: 2

REF: Importance of Quality

NAT: AACSB Analytic

MSC: KN

66. Owen is a factory manager for Gateway Computers and is conducting a visual inspection of component hardware and comparing against established quality standards. Owen is measuring \_\_\_\_\_.
- benchmarking
  - production planning
  - critical path
  - quality control

ANS: D DIF: 2

REF: Importance of Quality

NAT: AACSB Reflective Thinking

MSC: AP

## TRUE/FALSE

1. All outputs of the production process are tangible goods and services.

ANS: F DIF: 1

REF: Chapter Opener

NAT: AACSB Analytic

MSC: KN

2. A company uses raw materials to produce a product. The company is creating production utility.

ANS: F                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

3. The production process converts inputs into outputs.

ANS: T                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Analytic                      MSC: KN

4. The production process is irrelevant to not-for-profit organizations.

ANS: F                      DIF: 1                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

5. A car battery is an example of a standardized part, which simplifies the replacement process.

ANS: T                      DIF: 1                      REF: Strategic Importance of the Production Function  
NAT: AACSB Reflective Thinking                      MSC: AP

6. The assembly line is a logical extension of specialization and standardization.

ANS: T                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

7. Flexible production systems are less complicated and require less cooperation than do mass production systems.

ANS: F                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

8. Mass production makes outputs available in larger quantities, but higher costs, than individually crafted items would cost.

ANS: F                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Analytic                      MSC: KN

9. Trisha owns a line of hand-made jewelry. She is paid in advance and creates items that are custom made according to her clients' specifications. Trisha uses a system of customer-driven production.

ANS: T                      DIF: 2                      REF: Strategic Importance of the Production Function  
NAT: AACSB Reflective Thinking                      MSC: AP

10. An analytic production system reduces a raw material to its component parts in order to extract a marketable product or products.

ANS: T                      DIF: 1                      REF: Production Processes  
NAT: AACSB Analytic                      MSC: KN

11. An auto assembly plant is an example of analytic production.

ANS: F                      DIF: 2                      REF: Production Processes  
NAT: AACSB Reflective Thinking                      MSC: AP

12. Most services, such as accountants and plumbers, result from intermittent production systems.

ANS: T                      DIF: 2                      REF: Production Processes  
NAT: AACSB Reflective Thinking                      MSC: AP

13. A “lights out” factory is completely automated to the extent where no workers are needed to make what the factory produces.

ANS: T                      DIF: 2                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

14. An important use of robots is to free humans from potentially dangerous assignments such as handling hazardous materials.

ANS: T                      DIF: 1                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

15. Computer-aided design systems pick up where computer-aided manufacturing systems leave off.

ANS: F                      DIF: 2                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

16. Boeing engineers use computers to build new commercial jet models in the virtual world before they are actually built in production. Boeing is using a computer-aided manufacturing system.

ANS: F                      DIF: 3                      REF: Technology and the Production Process  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

17. Computer-integrated manufacturing combines the use of robots, CAD/CAM, and flexible manufacturing systems.

ANS: T                      DIF: 2                      REF: Technology and the Production Process  
NAT: AACSB Technology                      MSC: KN

18. When choosing the location of a plant, transportation access is the only consideration.

ANS: F                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Analytic                      MSC: KN

19. For software manufacturers, human factors are more important than transportation factors.

ANS: T                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Analytic                      MSC: KN

20. Plant location decisions become more limited when skilled technicians are required.

ANS: T                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

21. Availability of adequate labor is a more important location decision for hotels and other service businesses than proximity to markets.

ANS: F                      DIF: 2                      REF: The Location Decision  
NAT: AACSB Reflective Thinking                      MSC: AP

22. Production managers must continually evaluate results of the production process and make adjustments along the way.

ANS: T                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

23. The production planning process begins with the choice of goods and services to offer customers.

ANS: T                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

24. A product layout is one in which the product remains in a fixed position and workers, materials, and machines are transported to and from it.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

25. A process layout groups machinery and other equipment according to their functions.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

26. Automobile assembly lines have been traditionally based on process layouts.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

27. A product layout can efficiently produce a large number of similar products but is relatively inflexible.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

28. Custom machine shops are typically organized in a product layout.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

29. Airplane manufacturers have traditionally used a fixed-position layout.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

30. A customer-oriented layout is common in service facilities.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

31. The decision to make, buy, or lease sometimes hinges on the availability of outside suppliers that can dependably meet a firm's standards for quality and quantity.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

32. Managers should maintain access to multiple supply sources.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

33. Raw materials are often purchased on a long-term contractual basis.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

34. The need for confidentiality sometimes affects the decision to purchase or lease.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

35. Fundamentally, price is the only consideration when selecting a supplier.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

36. Even with a major purchase, negotiations between a purchaser and potential vendors are done as quickly as possible in order to begin the manufacturing process.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

37. Many firms insist on long-term contracts with suppliers to ensure the availability of materials.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

38. It is always less costly to have inventory shortages than to have excess inventory.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

39. Perpetual inventory systems typically use computers to continuously monitor the amounts and locations of their stocks.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Technology                      MSC: KN

40. Just-in-time inventory systems increase production flexibility and allow for continuous production.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

41. Just-in-time inventory systems seek to eliminate all sources of waste in operations activities.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

42. One potential problem with just-in-time systems is the added risk of running out of inventory if demand unexpectedly surges.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

43. Megan's company builds custom guitars based on client specifications. Her company would best utilize a just-in-time system.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

44. MRP is a management philosophy aimed at improving profits by involving workers in the operations process and eliminating waste through cost reductions, inventory reductions, and quality improvements.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

45. Robert owns a small art gallery with only a few components. His company does not necessarily need an inventory system based on materials requirement planning.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

46. Production control creates procedures for coordinating people, materials, and machinery efficiently.

ANS: T                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

47. The first step in production control is production scheduling.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

48. Eva is determining the sequence of work throughout a manufacturing facility and who will perform which task at which location. Eva is engaged in the production control step known as scheduling.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Reflective Thinking                      MSC: AP

49. Routing choices depend on the nature of the good or service and the facility layout.

ANS: T                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

50. Gantt charts are most effective for scheduling complex projects with several variables.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

51. PERT is a scheduling technique designed to minimize production delays.

ANS: T                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

52. The critical path in a PERT diagram illustrates the most expensive operations that need to be done.

ANS: F                      DIF: 2                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

53. The phase of production control in which the manager instructs each department on the work to be done and the time allowed for its completion is called dispatching.

ANS: T                      DIF: 1                      REF: The Job of Production Managers  
NAT: AACSB Analytic                      MSC: KN

54. Identifying how leaders in certain fields perform and continually comparing and measuring performance against these outstanding performers is called benchmarking.

ANS: T                      DIF: 2                      REF: Importance of Quality  
NAT: AACSB Analytic                      MSC: KN

55. Companies may use many different benchmarks, depending on their objectives.

ANS: T                      DIF: 1                      REF: Importance of Quality  
NAT: AACSB Reflective Thinking                      MSC: AP

56. Quality control involves measuring products and services against established quality standards.

ANS: T                      DIF: 1                      REF: Importance of Quality  
NAT: AACSB Analytic                      MSC: KN

57. A typical American factory spends up to half its operating budget identifying and fixing mistakes.

ANS: T                      DIF: 2                      REF: Importance of Quality  
NAT: AACSB Analytic                      MSC: KN

58. To receive an ISO family certification, a company must undergo an on-site audit.

ANS: T                      DIF: 2                      REF: Importance of Quality  
NAT: AACSB Analytic                      MSC: KN

## Chapter 12—Customer-Driven Marketing

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### MATCHING

*Complete the following using the terms listed.*

- a. secondary data
- b. affinity program
- c. market segmentation
- d. demographic
- e. target market
- f. end-use segmentation
- g. marketing mix
- h. data mining
- i. consumer behavior
- j. ownership utility
- k. place marketing
- l. relationship marketing
- m. person marketing
- n. mass customization
- o. frequency marketing
- p. comarketing
- q. cobranding

- 1. \_\_\_\_\_ refers to an orderly transfer of goods and services from the seller to the buyer.
- 2. \_\_\_\_\_ goes beyond an effort toward making the sale.
- 3. \_\_\_\_\_ attempts to isolate the traits that distinguish a certain group of customers from the overall market.
- 4. A firm's \_\_\_\_\_ blends four strategies to fit the needs and preferences of a specific target market.
- 5. Marketing researchers use government statistics, or \_\_\_\_\_, as a low cost and quick access to consumer information.
- 6. The most common method of market segmentation is \_\_\_\_\_ segmentation.
- 7. \_\_\_\_\_ includes the actions and decision processes of buyers.
- 8. \_\_\_\_\_ focuses on the precise way a business-to-business purchaser will use a product.
- 9. A marketing effort sponsored by an organization that solicits involvement by individuals who share common interests and activities is a(n) \_\_\_\_\_.
- 10. An ad campaign to promote a vacation destination like Hawaii is an example of \_\_\_\_\_.
- 11. The group of potential customers toward whom a company directs its marketing efforts is the company's \_\_\_\_\_.
- 12. The use of a computer to search through massive amounts of customer data to detect patterns and relationships is known as \_\_\_\_\_.
- 13. A campaign to promote a political candidate is an example of \_\_\_\_\_.
- 14. \_\_\_\_\_ programs reward purchasers with cash, rebates, merchandise, and other premiums for multiple purchases.
- 15. When two or more businesses link their names to a single product, \_\_\_\_\_ occurs.
- 16. \_\_\_\_\_ allows a firm to bulk-produce goods and services while adding unique features to individual or small groups of orders.
- 17. \_\_\_\_\_ involves two or more businesses that jointly market each other's products.

- |                     |        |                             |
|---------------------|--------|-----------------------------|
| 1. ANS: J           | DIF: 1 | REF: What is Marketing?     |
| NAT: AACSB Analytic |        | MSC: KN                     |
| 2. ANS: L           | DIF: 2 | REF: Relationship Marketing |



	NAT: AACSB Analytic		MSC: KN
3.	ANS: C	DIF: 2	REF: Market Segmentation
	NAT: AACSB Analytic		MSC: KN
4.	ANS: G	DIF: 2	REF: Developing a Marketing Strategy
	NAT: AACSB Analytic		MSC: KN
5.	ANS: A	DIF: 2	REF: Marketing Research
	NAT: AACSB Analytic		MSC: KN
6.	ANS: D	DIF: 2	REF: Market Segmentation
	NAT: AACSB Analytic		MSC: KN
7.	ANS: I	DIF: 2	REF: Consumer Behavior
	NAT: AACSB Analytic		MSC: KN
8.	ANS: F	DIF: 2	REF: Market Segmentation
	NAT: AACSB Analytic		MSC: KN
9.	ANS: B	DIF: 2	REF: Relationship Marketing
	NAT: AACSB Analytic		MSC: KN
10.	ANS: K	DIF: 2	REF: Not-for-Profit and Nontraditional Marketing
	NAT: AACSB Analytic		MSC: KN
11.	ANS: E	DIF: 2	REF: Developing a Marketing Strategy
	NAT: AACSB Analytic		MSC: KN
12.	ANS: H	DIF: 2	REF: Marketing Research
	NAT: AACSB Analytic		MSC: KN
13.	ANS: M	DIF: 2	REF: Not-for-Profit and Nontraditional Marketing
	NAT: AACSB Analytic		MSC: KN
14.	ANS: O	DIF: 2	REF: Relationship Marketing
	NAT: AACSB Analytic		MSC: KN
15.	ANS: Q	DIF: 2	REF: Relationship Marketing
	NAT: AACSB Analytic		MSC: KN
16.	ANS: N	DIF: 2	REF: Developing a Marketing Strategy
	NAT: AACSB Analytic		MSC: KN
17.	ANS: P	DIF: 2	REF: Relationship Marketing
	NAT: AACSB Analytic		MSC: KN

## ESSAY

1. What is marketing? How does marketing go beyond selling?

ANS:

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketing is more than just selling. Marketing is the process of discovering unmet customer needs and continues with researching the potential market; producing a good or service capable of satisfying the targeted customers; and promoting, pricing, and distributing that good or service. Throughout the entire marketing process, a successful organization focuses on building customer relationships.

DIF: 3 REF: What is Marketing?

NAT: AACSB Reflective Thinking MSC: AP

2. Define utility and explain the types of utility created by the marketing function.

ANS:

The ability of a good or service to satisfy the wants and needs of customers is called utility. Marketing creates time utility (making a product available when customers want to purchase it), place utility (having the product available where customers want to purchase it), and ownership utility (the orderly transfer of goods and services from the seller to the buyer).

DIF: 2                      REF: What is Marketing?   NAT: AACSB Analytic  
MSC: KN

3. Discuss the evolution of the marketing concept through the marketing history eras.

ANS:

Initially, marketing was dominated by production, based on the notion that a good product will sell itself. This idea gradually gave way to a sales orientation. The sales era was based on the idea that creative advertising and selling will overcome customer resistance and convince them to buy. The sales era eventually gave way to the marketing era. It was based on the philosophy that companies should find a customer need and fill it. Recently, the marketing era has been transformed into the relationship era, based on the belief that long-term relationships between producers and their customers lead to success.

DIF: 3                      REF: Evolution of the Marketing Concept   NAT: AACSB Analytic  
MSC: KN

4. Describe the five categories of nontraditional marketing and give an example of each.

ANS:

There are five basic types of nontraditional marketing: person marketing, place marketing, cause marketing, organization marketing, and event marketing. Person marketing refers to efforts to cultivate the attention, interest, and preference of a target market toward an individual. An example is the marketing of a political candidate or celebrity. Place marketing attempts to promote a specific location (such as a city, state, or region); tourism or industrial development campaigns are examples. Cause marketing refers to the marketing of a specific cause or social issue and includes campaigns against child abuse or anti-smoking drives. Organization marketing attempts to influence people to support or seek the services of a particular organization. Museums and theaters often promote themselves in this way. Event marketing involves the marketing or sponsorship of short-term events, such as athletic competitions.

DIF: 3                      REF: Not-for-Profit and Nontraditional Marketing  
NAT: AACSB Analytic                      MSC: KN

5. Define the term *target market*.

ANS:

A target market (a subset of a market) is the group of potential customers toward whom the firm directs its marketing efforts. Customer needs and wants vary considerably, and no single organization has the resources to satisfy everyone. Organizations must carefully analyze potential target markets and then choose between them.

DIF: 2                      REF: Developing a Marketing Strategy   NAT: AACSB Analytic  
MSC: KN

6. Explain how a marketing mix is developed.

ANS:

Decisions about marketing involve four major strategies: products, pricing, distribution, and promotion. A firm's marketing mix blends the four strategies to fit the needs and preferences of a specific target market. Marketing success depends not on the four individual strategies, but on their unique and effective combination.

DIF: 2                      REF: Developing a Marketing Strategy      NAT: AACSB Reflective Thinking  
MSC: AP

7. Marketing a good or service in foreign markets means deciding on standardization versus adaptation. In making this decision, what is the competitive advantage of each?

ANS:

The advantages of standardizing the marketing mix include reliable marketing performance and low costs. The firm offers the same product supported by the same marketing mix in every market, also known as standardization. Adaptation, on the other hand, lets marketers vary their strategy mix to suit local competitive conditions, consumer preferences, and government regulations.

DIF: 3                      REF: Developing a Marketing Strategy      NAT: AACSB Reflective Thinking  
MSC: AP

8. Describe the sources of marketing research data.

ANS:

Marketing research uses both external and internal data. Internal data develops within organizations, such as financial records. External data are data from third parties, such as government agencies. Secondary data are data previously collected, and are often used because such data are less expensive and faster and easier to obtain. Sometimes, however, marketing researchers can justify the time and expense associated with obtaining primary data -- data collected for the first time through surveys or observations -- because it provides information impossible to find through the less expensive sources.

DIF: 3                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

9. What is the purpose of data mining?

ANS:

Data mining refers to the use of a computer to search through massive amounts of customer data to detect patterns and relationships. These patterns may suggest predictive models of real-world business activities. By identifying patterns and connections, marketers can increase the accuracy of their predictions about the effectiveness of various strategy options.

DIF: 2                      REF: Marketing Research      NAT: AACSB Analytic  
MSC: KN

10. How are consumer markets segmented?

ANS:

Consumer markets are segmented in the following ways: geographically (based on location), demographically (based on gender, income, age, occupation, etc.), psychographically (based on lifestyle, attitudes, values, and self-image), and product-related (based on relationships to the good or service).

DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

11. Explain the three segmentation methods used by firms that offer business products.

ANS:

Marketers divide business markets through geographic segmentation, demographic (or customer-based) segmentation, and end-use segmentation. Geographic segmentation methods for business marketers resemble those for consumer markets. Many business-to-business marketers target geographically concentrated industries. Demographic, or customer-based, segmentation begins with a good or service design intended to suit a specific organizational market. To simplify the process of focusing on a particular type of business customer, the federal government has established the North American Industrial Classification System (NAICS). End-use segmentation focuses on the precise way in which a business purchaser will use a product.

DIF: 3

REF: Market Segmentation

NAT: AACSB Analytic

MSC: KN

12. Explain the personal and interpersonal determinants on consumer behavior.

ANS:

Personal influences on consumer behavior include individual needs, motives, perceptions, attitudes, learned experiences, and self-concept. Marketers frequently apply psychological techniques to understand what motivates people to buy. The interpersonal determinants of consumer behavior include cultural, social, and family influences.

DIF: 3

REF: Consumer Behavior

NAT: AACSB Analytic

MSC: KN

13. Describe some of the ways businesses are using relationship marketing to achieve corporate goals.

ANS:

One of the ways in which businesses are using relationships to reach corporate goals is partnering with customers. Effective long-term relationships with customers can be a vital strategic weapon for a firm. Attracting new customers costs much more than keeping an existing one. Long-term customers usually buy more, require less service, refer other customers, and provide valuable feedback. Partnering with suppliers often means lower inventory costs, better prices, and preferential treatment. Overall, it can lower production costs. By partnering with other businesses, a company can gain access to important new technologies and other innovations in a more cost-effective manner.

DIF: 3

REF: Relationship Marketing

NAT: AACSB Reflective Thinking

MSC: AP

14. Compare comarketing and cobranding. Give an example of each.

ANS:

Comarketing is an arrangement by which two or more firms jointly market each other's products. Examples include fast-food establishments that sell toys to promote new-release movies. Cobranding occurs when two or more businesses team up to closely link their names for a single product. An example would be the Eddie Bauer vehicles from Ford Motor Company.

DIF: 2

REF: Relationship Marketing

NAT: AACSB Reflective Thinking

MSC: AP

## **MULTIPLE CHOICE**

1. \_\_\_\_\_ is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.
- Marketing
  - Market segmentation
  - Consumer behavior
  - Marketing research

ANS: A                      DIF: 1  
NAT: AACSB Analytic

REF: What is Marketing ?  
MSC: KN

2. Philippe owns a store that sells lampshades. The process of receiving money in return for lamp shades is \_\_\_\_\_.
- marketing
  - place utility
  - exchange
  - time utility

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: What is Marketing ?  
MSC: AP

3. The marketing function creates all of the following types of utility EXCEPT \_\_\_\_\_ utility.
- place
  - form
  - time
  - ownership

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: What is Marketing ?  
MSC: KN

4. A convenience store offers \_\_\_\_\_ utility by being open 24 hours each day.
- place
  - form
  - time
  - ownership

ANS: C                      DIF: 1  
NAT: AACSB Reflective Thinking

REF: What is Marketing ?  
MSC: AP

5. \_\_\_\_\_ utility is created when the business firm converts raw materials into finished goods and services.
- Place
  - Exchange
  - Ownership
  - Form

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: What is Marketing ?  
MSC: KN

6. A Wisconsin sporting goods store that sells fishing licenses at the start of each sport fishing season is creating \_\_\_\_\_ utility.
- time
  - form
  - ownership

d. place

ANS: A                      DIF: 2                      REF: What is Marketing ?  
NAT: AACSB Reflective Thinking                      MSC: AP

7. Place utility is created \_\_\_\_\_.  
a. when arrangements for the transfer of title from seller to buyer are made  
b. by having the good or service available at a convenient location when the consumer wants to buy it  
c. when the product is made available to the consumer at a time the consumer wants to buy it  
d. when the business firm converts raw materials into finished products

ANS: B                      DIF: 1                      REF: What is Marketing ?  
NAT: AACSB Analytic                      MSC: KN

8. The location of a coffee shop franchise in a mall creates \_\_\_\_\_ utility.  
a. place  
b. ownership  
c. form  
d. time

ANS: A                      DIF: 1                      REF: What is Marketing ?  
NAT: AACSB Reflective Thinking                      MSC: AP

9. The utility that is created when a salesperson at a car dealership completes the sales contract is \_\_\_\_\_ utility.  
a. place  
b. form  
c. time  
d. ownership

ANS: D                      DIF: 2                      REF: What is Marketing ?  
NAT: AACSB Reflective Thinking                      MSC: AP

10. The era in marketing history characterized by the notion that creative advertising would convince consumers to buy a product is known as the \_\_\_\_\_ era.  
a. relationship  
b. marketing  
c. production  
d. sales

ANS: D                      DIF: 2                      REF: Evolution of the Marketing Concept  
NAT: AACSB Analytic                      MSC: KN

11. The era in marketing history characterized by the notion that a good product will sell itself is known as the \_\_\_\_\_ era.  
a. production  
b. sales  
c. marketing  
d. relationship

ANS: A                      DIF: 2                      REF: Evolution of the Marketing Concept  
NAT: AACSB Analytic                      MSC: KN

12. The era in marketing history characterized by the notion that the customer is always right is known as the \_\_\_\_\_ era.

- a. production
- b. sales
- c. marketing
- d. relationship

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Evolution of the Marketing Concept  
MSC: KN

13. The current marketing period is referred to as the \_\_\_\_\_ era.

- a. production
- b. relationship
- c. marketing
- d. sales

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Evolution of the Marketing Concept  
MSC: KN

14. As the result of a hurricane heading toward the coastal area of North Carolina, residents rushed to purchase plywood to cover their windows. Retailers who carried plywood were operating in a \_\_\_\_\_.

- a. mixed economy
- b. seller's market
- c. buyer's market
- d. regulated market

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Evolution of the Marketing Concept  
MSC: AP

15. Examples of private not-for-profit organizations include all of the following EXCEPT \_\_\_\_\_.

- a. St. Jude's Children's Hospital
- b. Fresno State University football team
- c. Michigan State Department of Natural Resources
- d. a local youth activities organization in Philadelphia

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Not-for-Profit and Nontraditional Marketing  
MSC: AP

16. \_\_\_\_\_ is the largest not-for-profit organization in the world.

- a. Red Cross
- b. United Way
- c. Habitat for Humanity
- d. American Heart Association

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Not-for-Profit and Nontraditional Marketing  
MSC: KN

17. Maria is campaigning for city council and talks with prospective voters in her ward about their concerns. Maria is engaged in \_\_\_\_\_ marketing.

- a. person
- b. place
- c. cause
- d. idea

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Not-for-Profit and Nontraditional Marketing  
MSC: AP

18. Local officials in a mid-size town used \_\_\_\_\_ marketing to convince major businesses to move to the area, including advertisements that emphasized low tax rates and accessible transportation.
- organization
  - place
  - cause
  - event

ANS: B

DIF: 2

REF: Not-for-Profit and Nontraditional Marketing

NAT: AACSB Reflective Thinking

MSC: AP

19. The Tour of Hope is a cross-country bike tour designed to raise awareness about cancer clinical trials. Dasani bottled water is one of the sponsors, which enables the company to utilize \_\_\_\_\_ marketing.
- organization
  - event
  - place
  - cause

ANS: B

DIF: 2

REF: Not-for-Profit and Nontraditional Marketing

NAT: AACSB Reflective Thinking

MSC: AP

20. Dominga is seeking employment in the banking industry. Before her interview with Citibank, she conducts thorough research and identifies ways in which she can benefit the company. What type of marketing is Dominga utilizing?
- Organization
  - Cause
  - Person
  - Place

ANS: C

DIF: 2

REF: Not-for-Profit and Nontraditional Marketing

NAT: AACSB Reflective Thinking

MSC: AP

21. The marketing of a social concern or issue is known as \_\_\_\_\_ marketing.
- place
  - person
  - organization
  - cause

ANS: D

DIF: 2

REF: Not-for-Profit and Nontraditional Marketing

NAT: AACSB Analytic

MSC: KN

22. The Detroit Zoological Society raises money for the local zoo by selling memberships that allow members to attend the zoo free of charge and receive their publication. The society is using \_\_\_\_\_ marketing.
- idea
  - place
  - organization
  - service

ANS: C

DIF: 2

REF: Not-for-Profit and Nontraditional Marketing

NAT: AACSB Reflective Thinking

MSC: AP

23. Which of the following is the first step in developing a marketing strategy?
- Identify a target market.
  - Develop the right product.



- c. Decide how to promote the product.
- d. Implement the appropriate distribution system.

ANS: A                      DIF: 1                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

24. A singles business aims its promotions toward singles between the ages of 25 and 40 who reside in a specific county. The business has \_\_\_\_\_.
- a. selected a target market
  - b. developed a marketing plan
  - c. developed a marketing mix
  - d. created person utility

ANS: A                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

25. Which of the following is both a consumer product *and* a business product?
- a. Clothes
  - b. Steel
  - c. Magazine
  - d. Computer

ANS: D                      DIF: 3                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

26. An organization's \_\_\_\_\_ is the group of potential customers toward whom it directs its marketing efforts.
- a. marketing demographic
  - b. target market
  - c. market segment
  - d. product market

ANS: B                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

27. Companies use \_\_\_\_\_ to focus on a specific consumer market by combining product, distribution, promotion, and pricing strategies.
- a. consumer behavior
  - b. a marketing mix
  - c. a marketing concept
  - d. market segmentation

ANS: B                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

28. Mona designs the packages and chooses the brand names for goods produced by her firm. Mona is involved in which part of the marketing mix?
- a. Promotion strategy
  - b. Distribution strategy
  - c. Product strategy
  - d. Pricing strategy

ANS: C                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

29. Which of the following marketing decision areas may be subject to government regulation but can be a powerful competitive tool for a business?
- a. Pricing strategy
  - b. Distribution strategy
  - c. Product strategy
  - d. Promotional strategy

ANS: A

DIF: 2

REF: Developing a Marketing Strategy

NAT: AACSB Analytic

MSC: KN

30. \_\_\_\_\_ strategy focuses on personal selling, advertising, sales promotion tools, and public relations to produce effective communication between the firm and the marketplace.
- a. Pricing
  - b. Promotional
  - c. Distribution
  - d. Product

ANS: B

DIF: 2

REF: Developing a Marketing Strategy

NAT: AACSB Analytic

MSC: KN

31. Ida works on creating ways to ensure that customers receive goods at the right time and correct location. Ida is involved in her firm's \_\_\_\_\_ strategy.
- a. pricing
  - b. promotion
  - c. distribution
  - d. product

ANS: C

DIF: 2

REF: Developing a Marketing Strategy

NAT: AACSB Reflective Thinking

MSC: AP

32. Joe is developing the marketing mix for his company's new line of power tools. A brand name, price, and distribution system have been decided. Now Joe is concentrating his efforts on developing the best advertising plan for the product line. The advertising plan is part of Joe's \_\_\_\_\_ strategy.
- a. production
  - b. pricing
  - c. promotional
  - d. product

ANS: C

DIF: 3

REF: Developing a Marketing Strategy

NAT: AACSB Reflective Thinking

MSC: AP

33. \_\_\_\_\_ allows luxury car companies to offer small groups of customers optional premiums, such as backseat refrigerators and panoramic moonroofs.
- a. Mass customization
  - b. Standardization
  - c. Organization marketing
  - d. Relationship production

ANS: A

DIF: 2

REF: Developing a Marketing Strategy

NAT: AACSB Reflective Thinking

MSC: AP

34. The Custom Foot is a shoe store chain that manufactures shoes only after a scanner records the customer's measurements. These measurements are sent via computer to factories in Italy, where the leather shoes are made by hand. This is an example of \_\_\_\_\_.
- a. standardization

- b. adaptation
- c. organization marketing
- d. mass customization

ANS: D                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

35. Standardization would be most appropriate for which of the following products?
- a. Commercial aircraft
  - b. DVDs
  - c. Fast food
  - d. Checking accounts

ANS: A                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

36. Adaptation works best for which of the following products?
- a. Paper
  - b. Fast Food
  - c. Chemicals
  - d. Natural gas

ANS: B                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

37. Data collected for the first time through observation or surveys is \_\_\_\_\_.
- a. secondary data
  - b. external data
  - c. primary data
  - d. a marketing information system

ANS: C                      DIF: 1                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

38. Census data are \_\_\_\_\_ and \_\_\_\_\_ data for marketing researchers.
- a. external; primary
  - b. internal; primary
  - c. internal; secondary
  - d. external; secondary

ANS: D                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

39. Devin obtains research data based on the number of unique visitors to his company's Web site, as well as tracking types of orders and amount of money spent. Devin is acquiring what type of research data?
- a. Principal
  - b. Secondary
  - c. External
  - d. Primary

ANS: D                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

40. A company's financial records are a source of \_\_\_\_\_ and \_\_\_\_\_ data for marketing researchers.
- a. external; primary
  - b. internal; primary

- c. external; secondary
- d. internal; secondary

ANS: B                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

41. All of the following are internal sources of data EXCEPT \_\_\_\_\_.
- a. company product sales
  - b. company product inventory
  - c. competitor's sales
  - d. unpaid bills

ANS: C                      DIF: 1                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

42. Esperanza is reviewing data that shows sales of her company's products during specific hours of each day. What kind of data is Esperanza reviewing?
- a. Internal data
  - b. Secondary data
  - c. External data
  - d. Survey data

ANS: A                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Which of the following is a drawback to using Census and other government data sources?
- a. Accessing government data is expensive.
  - b. Government data can become obsolete quickly.
  - c. Accessing government data is difficult.
  - d. Government data sources are unreliable.

ANS: B                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

44. Luke works as a marketing researcher and goes online to obtain information from government publications for census data and demographics. What type of data is Luke researching?
- a. Internal data
  - b. Secondary data
  - c. Peripheral data
  - d. Primary data

ANS: B                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

45. Allan and Erica assembled a group of 12 people and had the group evaluate several promotional campaigns. Allan and Erica collected data from a(n) \_\_\_\_\_.
- a. focus group
  - b. survey
  - c. observational source
  - d. secondary source

ANS: A                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

46. A focus group is a method of collecting \_\_\_\_\_ data and is a(n) \_\_\_\_\_.
- a. primary; survey method

- b. primary; observational study
- c. secondary; survey method
- d. secondary; observational study

ANS: A                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

47. Miguel is a research specialist in a marketing division. He is working on a project that involves searching through customer files to detect spending patterns or trends that his company could target to increase sales. Miguel is \_\_\_\_\_.
- a. developing a value-added database
  - b. segmenting and correlating the data files
  - c. doing environmental scanning
  - d. data mining

ANS: D                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

48. Wal-Mart uses data \_\_\_\_\_ to assess local preferences for merchandise so that the company can tailor the inventory of each store accordingly.
- a. mining
  - b. warehouses
  - c. marketing
  - d. research

ANS: A                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

49. Data \_\_\_\_\_ refer to sophisticated customer databases that allow managers to combine data from several different organizational functions.
- a. marketing
  - b. warehouses
  - c. research
  - d. mining

ANS: B                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

50. The oldest form of segmenting consumer markets is based on \_\_\_\_\_.
- a. geography
  - b. demographics
  - c. end-use
  - d. psychographics

ANS: A                      PTS: 1                      DIF: 2                      REF: p. 392  
NAT: AACSB Analytic                      MSC: KN

51. The common bases for segmenting consumer markets include all of the following EXCEPT \_\_\_\_\_ factors.
- a. psychographic
  - b. geographic
  - c. demographic
  - d. end-use

ANS: D                      PTS: 1                      DIF: 1                      REF: p. 392  
NAT: AACSB Analytic                      MSC: KN

52. The most common form of consumer market segmentation is based on \_\_\_\_\_.  
a. end-use  
b. geography  
c. product-related  
d. demographics

ANS: D                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

53. All of the following are demographic methods for segmenting a market EXCEPT \_\_\_\_\_.  
a. age  
b. education  
c. lifestyle  
d. income

ANS: C                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

54. *Forbes*, *Fortune*, and similar types of magazines often contain ads for Rolex watches, BMW automobiles, and other luxury items. Advertisers are trying to reach a market segment based on \_\_\_\_\_.  
a. location  
b. age  
c. gender  
d. income

ANS: D                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Reflective Thinking                      MSC: AP

55. Desmond is developing several different marketing strategies based on target markets that differ in terms of lifestyles. He is segmenting the overall market by \_\_\_\_\_.  
a. demographics  
b. end-use  
c. psychographics  
d. product

ANS: C                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Reflective Thinking                      MSC: AP

56. Amazon.com keeps track of goods its customers have ordered. When a returning customer logs onto Amazon.com, the site creates a list of recommendations based on the customer's purchasing history. How is Amazon.com segmenting the market?  
a. By psychographics  
b. By product  
c. By demographics  
d. By end-use

ANS: B                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Reflective Thinking                      MSC: AP

57. All of the following are methods of segmenting the business market EXCEPT \_\_\_\_\_.  
a. psychographics  
b. demographics  
c. geographic

d. end-use

ANS: A                      DIF: 2

REF: Market Segmentation

NAT: AACSB Analytic

MSC: KN

58. Gwen's mid-size company designs specialty lenses for a camera manufacturer. Her design specifications are based on the camera's performance, design, and price. What type of business market is Gwen engaged in?
- Product-related segmentation
  - End-use segmentation
  - Buyer behavior
  - Product usage rate

ANS: B                      DIF: 3

REF: Market Segmentation

NAT: AACSB Reflective Thinking

MSC: AP

59. \_\_\_\_\_ refers to the actions of consumers directly involved in obtaining, consuming, and disposing of products, and the decision processes that precede and follow these actions.
- Buyer behavior
  - Consumer behavior
  - Marketing management
  - The marketing mix

ANS: B                      DIF: 1

REF: Consumer Behavior

NAT: AACSB Analytic

MSC: KN

60. Interpersonal determinants of consumer behavior include all of the following EXCEPT \_\_\_\_\_ influences.
- motivational
  - cultural
  - social
  - family

ANS: A                      DIF: 1

REF: Consumer Behavior

NAT: AACSB Analytic

MSC: KN

61. Which of the following is an interpersonal determinant of consumer behavior?
- Perceptions
  - Attitudes
  - Family influences
  - Learned experiences

ANS: C                      DIF: 1

REF: Consumer Behavior

NAT: AACSB Analytic

MSC: KN

62. Personal determinants in the buying decision include all of the following EXCEPT \_\_\_\_\_.
- needs and motives
  - perception and attitudes
  - learning and self-concept
  - cultural experiences

ANS: D                      DIF: 2

REF: Consumer Behavior

NAT: AACSB Analytic

MSC: KN

63. Bailey seeks out cleaning products that are environmentally friendly and is willing to pay extra for a "green" brand. What is the main factor for Bailey's purchase?

- a. Interpersonal determinants
- b. Relationship marketing
- c. Personal determinants
- d. End-use segmentation

ANS: C                      DIF: 2                      REF: Consumer Behavior  
 NAT: AACSB Reflective Thinking                      MSC: AP

64. Charlotte wants to purchase a new printer for her computer. She decides to stick with the brand she knows because of her experience with its efficiency and reliability. This is an example of a(n) \_\_\_\_\_.

- a. interpersonal determinant
- b. personal determinant
- c. buying behavior
- d. recognition of a problem or opportunity

ANS: B                      DIF: 2                      REF: Consumer Behavior  
 NAT: AACSB Reflective Thinking                      MSC: AP

65. Aidan is tired of doing his laundry at the local laundromat and would like to buy a washer and dryer for his apartment. In the Saturday paper he notices that a retail store is having a half-price sale. Aidan is at what step of the consumer behavior process?

- a. Evaluation of alternatives
- b. Searching for alternatives
- c. Purchase decision
- d. Purchase act

ANS: B                      DIF: 2                      REF: Consumer Behavior  
 NAT: AACSB Reflective Thinking                      MSC: AP

66. Personal and interpersonal determinants affect which steps in the consumer behavior process?

- a. Recognition of problem or opportunity
- b. Purchase decision
- c. Purchase act
- d. Each step in the consumer behavior process

ANS: D                      DIF: 1                      REF: Consumer Behavior  
 NAT: AACSB Analytic                      MSC: KN

67. Developing and maintaining long-term, cost-effective exchange relationships with individual customers, suppliers, employees, and other partners for mutual benefit characterizes \_\_\_\_\_.

- a. relationship management
- b. customer satisfaction
- c. relationship marketing
- d. interpersonal consumer relationships

ANS: C                      DIF: 2                      REF: Relationship Marketing  
 NAT: AACSB Analytic                      MSC: KN

68. Fiona has initiated a project to establish a company Web site for interactive electronic commerce that encourages customers to provide the company with information on their purchase decision factors, post-purchase evaluations, lifestyles, and future expectations for service. Fiona plans to use the Internet for \_\_\_\_\_.

- a. market segmentation
- b. relationship marketing



- c. organization marketing
- d. end-use segmentation

ANS: B                      DIF: 3                      REF: Relationship Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

69. Which of the following is NOT consistent with relationship marketing?
- a. Focusing on attaining new customers, even at the expense of losing long-term ones
  - b. Developing partnerships with suppliers
  - c. Developing partnerships with customers
  - d. Supporting other businesses where that support is beneficial to the company's goals

ANS: A                      DIF: 2                      REF: Relationship Marketing  
NAT: AACSB Analytic                      MSC: KN

70. Approximately how much more does it cost to attract one new customer than to keep an existing one?
- a. Twice as much
  - b. Three times as much
  - c. Five times as much
  - d. About the same

ANS: C                      DIF: 3                      REF: Relationship Marketing  
NAT: AACSB Analytic                      MSC: KN

71. When customers scan their “preferred cards” at a grocery store, the list of items is computed, and the store can offer coupons that are personalized to customer preferences. This is an example of \_\_\_\_\_.
- a. consumer behavior
  - b. affinity program
  - c. frequency marketing
  - d. product-related segmentation

ANS: C                      DIF: 2                      REF: Relationship Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

72. Subaru offers a version of its Outback called the L.L. Bean edition. This is an example of \_\_\_\_\_.
- a. a comarketed product
  - b. supplier-producer cooperation
  - c. a marketing mix
  - d. a cobranded product

ANS: D                      DIF: 2                      REF: Relationship Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

73. A university offers alumni a special Visa card with the university's logo printed on the front. Each time the cardholder uses the card, the university receives a small percentage of the amount charged. This is an example of \_\_\_\_\_.
- a. cobranding
  - b. comarketing
  - c. a frequency marketing program
  - d. an affinity program

ANS: D                      DIF: 2                      REF: Relationship Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

74. When McDonald’s sold Beanie Babies in their Happy Meals, both companies profited from the \_\_\_\_\_ arrangement.

- a. comarketing
- b. cobranding
- c. affinity program
- d. transaction marketing

ANS: A                      DIF: 2  
 NAT: AACSB Reflective Thinking

REF: Relationship Marketing  
 MSC: AP

## TRUE/FALSE

1. Marketing is basically a form of selling.

ANS: F                      PTS: 1                      DIF: 1  
 NAT: AACSB Analytic                      MSC: KN

REF: What is Marketing?

2. When the American Lung Association distributes pamphlets on the dangers of smoking, they are using marketing as an educational tool.

ANS: T                      PTS: 1                      DIF: 2  
 NAT: AACSB Reflective Thinking                      MSC: AP

REF: What is Marketing?

3. The only thing marketing cannot sell is a viewpoint or idea.

ANS: F                      PTS: 1                      DIF: 2  
 NAT: AACSB Analytic                      MSC: KN

REF: What is Marketing?

4. An important aspect of marketing is the ability to anticipate consumers' needs before they surface.

ANS: T                      PTS: 1                      DIF: 2  
 NAT: AACSB Reflective Thinking                      MSC: AP

REF: What is Marketing?

5. Throughout the marketing process, a successful organization focuses on building customer relationships.

ANS: T                      PTS: 1                      DIF: 1  
 NAT: AACSB Analytic                      MSC: KN

REF: What is Marketing?

6. Marketing creates form, time, place, and ownership utility.

ANS: F                      PTS: 1                      DIF: 2  
 NAT: AACSB Analytic                      MSC: KN

REF: What is Marketing?

7. Ownership utility is created by making a product available in a location and at a time convenient for customers.

ANS: F                      PTS: 1                      DIF: 2  
 NAT: AACSB Analytic                      MSC: KN

REF: What is Marketing?

8. Becky opened a sandwich stand near a row of corporate offices, whose employees previously had to drive several miles to get their lunch. Becky is utilizing place utility.

ANS: T                      PTS: 1                      DIF: 1  
 NAT: AACSB Reflective Thinking                      MSC: AP

REF: What is Marketing?

9. An outdoor store sells rafting and camping permits for a close-by national park. The store is creating time utility.

ANS: F                      PTS: 1                      DIF: 2                      REF: What is Marketing?  
NAT: AACSB Reflective Thinking                      MSC: AP

10. The sales era in marketing gradually gave way to the relationship era.

ANS: F                      PTS: 1                      DIF: 2                      REF: Evolution of the Marketing  
Concept  
NAT: AACSB Analytic                      MSC: KN

11. The marketing concept refers to a company-wide customer orientation with the objective of achieving long-term success.

ANS: T                      PTS: 1                      DIF: 1                      REF: Evolution of the Marketing  
Concept  
NAT: AACSB Analytic                      MSC: KN

12. A seller's market is one characterized by an abundance of goods and services.

ANS: F                      PTS: 1                      DIF: 2                      REF: Evolution of the Marketing  
Concept  
NAT: AACSB Analytic                      MSC: KN

13. Marketing strategies are essential for not-for-profit organizations because they are competing for dollars just as commercial businesses are.

ANS: T                      PTS: 1                      DIF: 1                      REF: Not-for-Profit and  
Nontraditional Marketing  
NAT: AACSB Analytic                      MSC: KN

14. Efforts to promote the annual Sundance Film Festival are an example of place marketing.

ANS: F                      PTS: 1                      DIF: 2                      REF: Not-for-Profit and  
Nontraditional Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

15. Event marketing seeks to educate the public more than directly raise funds.

ANS: F                      PTS: 1                      DIF: 2                      REF: Not-for-Profit and  
Nontraditional Marketing  
NAT: AACSB Analytic                      MSC: KN

16. The use of Web sites, magazine adds, and mail sent directly to consumers to market their organizations is an example of organization marketing.

ANS: T                      PTS: 1                      DIF: 2                      REF: Not-for-Profit and  
Nontraditional Marketing  
NAT: AACSB Reflective Thinking                      MSC: AP

17. The first element of a marketing strategy is to identify a target market.

ANS: T                      PTS: 1                      DIF: 1                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

18. Products fall into the categories of consumer or business, but not both.

ANS: F                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

19. Marketing segmentation is the group of potential customers toward whom an organization directs its marketing efforts.

ANS: F                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

20. When Foot Locker opened Lady Footlocker, the company was directing its efforts at a target market.

ANS: T                      PTS: 1                      DIF: 1                      REF: Developing a Marketing Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

21. A firm's marketing success depends on the individual strategies developed for each of the four elements of its marketing mix.

ANS: F                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

22. "Find a need and fill it" is the simplest explanation of the two elements of a marketing strategy.

ANS: T                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

23. One of the most difficult areas of marketing decision making is pricing.

ANS: T                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

24. Standardization works well for steel and chemicals in other countries.

ANS: T                      PTS: 1                      DIF: 1                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

25. Consumer products usually require adaptation since they tend to be culture dependent.

ANS: T                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

26. Mass customization attempts to blend unique features into standardized goods and services.

ANS: T                      PTS: 1                      DIF: 2                      REF: Developing a Marketing Strategy  
NAT: AACSB Analytic                      MSC: KN

27. A researcher who needs to gather timely, current information might be frustrated working with secondary data.

ANS: T                      PTS: 1                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Reflective Thinking                      MSC: AP

28. External data refer to data about other organizations.

ANS: F                      PTS: 1                      DIF: 1                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

29. Primary data refer to data collected firsthand through such methods as observation and surveys.

ANS: T                      PTS: 1                      DIF: 1                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

30. Most government data can now be accessed over the Internet.

ANS: T                      PTS: 1                      DIF: 1                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

31. A focus group is a type of survey method for collecting secondary data.

ANS: F                      PTS: 1                      DIF: 2                      REF: Marketing Research  
NAT: AACSB Analytic                      MSC: KN

32. Market segmentation is the process of dividing a total market into several relatively diverse groups.

ANS: F                      PTS: 1                      DIF: 1                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

33. Market segmentation attempts to isolate the traits that distinguish a certain group of consumers from the overall market.

ANS: T                      PTS: 1                      DIF: 1                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

34. The most common method of market segmentation is demographic segmentation.

ANS: T                      PTS: 1                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

35. Demographic segmentation divides consumer markets into groups with similar values and lifestyles.

ANS: F                      PTS: 1                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

36. Income is perhaps the most volatile factor in demographic segmentation in the United States.

ANS: F                      PTS: 1                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

37. Attitudes and opinions are psychographic characteristics.

ANS: T                      PTS: 1                      DIF: 1                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

38. The 80/20 principle states that 80 percent of a product's revenue comes from only about 20 percent of its users.

ANS: T                      PTS: 1                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

39. End-use segmentation focuses on the precise way a consumer will use a product.

ANS: F                      PTS: 1                      DIF: 2                      REF: Market Segmentation  
NAT: AACSB Analytic                      MSC: KN

40. Personal factors that influence consumer behavior include cultural, social, and family influences.

ANS: F                      PTS: 1                      DIF: 1                      REF: Consumer Behavior  
NAT: AACSB Analytic                      MSC: KN

41. Business buyers face a variety of organizational influences in addition to their own preferences.

ANS: T                      PTS: 1                      DIF: 1                      REF: Consumer Behavior  
NAT: AACSB Analytic                      MSC: KN

42. Family factors have been shown to influence consumer car buying decisions. This is an example of a personal influence on consumer behavior.

ANS: F                      PTS: 1                      DIF: 2                      REF: Consumer Behavior  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Both personal and interpersonal factors influence the way buyers behave.

ANS: T                      PTS: 1                      DIF: 1                      REF: Consumer Behavior  
NAT: AACSB Analytic                      MSC: KN

44. The first step in the consumer behavior process is the recognition of a problem or opportunity.

ANS: T                      PTS: 1                      DIF: 1                      REF: Consumer Behavior  
NAT: AACSB Analytic                      MSC: KN

45. Personal and interpersonal influences are strongest in only the early steps of the consumer behavior process.

ANS: F                      PTS: 1                      DIF: 2                      REF: Consumer Behavior  
NAT: AACSB Reflective Thinking                      MSC: AP

46. The goal of completing transactions is to build long-term relationships between sellers and their customers.

ANS: F                      PTS: 1                      DIF: 1                      REF: Relationship Management  
NAT: AACSB Analytic                      MSC: KN

47. As its ultimate goal, relationship marketing seeks to achieve customer satisfaction.

ANS: T                      PTS: 1                      DIF: 2                      REF: Relationship Management  
NAT: AACSB Analytic                      MSC: KN

48. Building long-term relationships with a few suppliers can actually lower production costs.

ANS: T                      PTS: 1                      DIF: 2                      REF: Relationship Management  
NAT: AACSB Analytic                      MSC: KN

49. The Internet is considered an indirect way of connecting with customers.

ANS: F                      PTS: 1                      DIF: 2                      REF: Relationship Management  
NAT: AACSB Analytic                      MSC: KN

50. Cobranding is when a company develops a product for two or more of its customers.

ANS: F                      PTS: 1                      DIF: 2                      REF: Relationship Management  
NAT: AACSB Analytic                      MSC: KN

51. An example of an affinity program would be credit card customers who apply for cards affiliated with their favorite charity.

ANS: T                      PTS: 1                      DIF: 2                      REF: Relationship Management  
NAT: AACSB Reflective Thinking                      MSC: AP

## Chapter 13—Product and Distribution Strategies

### MATCHING

*Complete the following using the terms listed.*

- a. marketing intermediary
  - b. test marketing
  - c. brand insistence
  - d. product life cycle
  - e. brand equity
  - f. trademark
  - g. private brand
  - h. product line
  - i. shopping products
  - j. product mix
  - k. wheel of retailing
  - l. logistics
- 
1. A(n) \_\_\_\_\_ identifies a product that carries a wholesale or retail label instead of being linked to a manufacturer.
  2. A(n) \_\_\_\_\_ is a firm that moves goods between producers and consumers or business users.
  3. \_\_\_\_\_ are those typically purchased only after the buyer has compared competing products at rival stores.
  4. \_\_\_\_\_ refers to the stages a product goes through when it enters and leaves the market.
  5. The assortment of product lines and individual goods and services that a firm offers to consumer and business users is a(n) \_\_\_\_\_.
  6. \_\_\_\_\_ introduces a new product supported by a complete marketing campaign to a selected city or TV coverage area.
  7. The added value that a widely respected, highly successful name gives to a product is called \_\_\_\_\_.
  8. A(n) \_\_\_\_\_ is a brand name that has been given legal protection.
  9. A(n) \_\_\_\_\_ is a group of related products marked by physical similarities or intended for a similar market.
  10. \_\_\_\_\_ is the ultimate degree in brand loyalty, in which the consumer will accept no substitute for a preferred brand.
  11. In a process called the \_\_\_\_\_, new retailers enter the market by offering lower prices made possible through reductions in service.
  12. The process of coordinating the flow of goods, services, and information among members of the supply chain is called \_\_\_\_\_.
- 
- |               |                     |                             |
|---------------|---------------------|-----------------------------|
| 1. ANS: G     | DIF: 2              | REF: Product Identification |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |
| 2. ANS: A     | DIF: 2              | REF: Distribution Strategy  |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |
| 3. ANS: I     | DIF: 2              | REF: Product Strategy       |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |
| 4. ANS: D     | DIF: 2              | REF: Product Life Cycle     |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |
| 5. ANS: J     | DIF: 2              | REF: Product Strategy       |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |
| 6. ANS: B     | DIF: 2              | REF: Product Life Cycle     |
| OBJ: TYPE: KN | TOP: AACSB Analytic |                             |



- |     |               |                     |   |
|-----|---------------|---------------------|---|
| 7.  | ANS: E        | DIF: 2              | REF: Product Identification                       |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |
| 8.  | ANS: F        | DIF: 2              | REF: Product Identification                       |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |
| 9.  | ANS: H        | DIF: 2              | REF: Product Strategy                             |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |
| 10. | ANS: C        | DIF: 2              | REF: Product Identification                       |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |
| 11. | ANS: K        | DIF: 2              | REF: Retailing                                    |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |
| 12. | ANS: L        | DIF: 2              | REF: Distribution Channel Decisions and Logistics |
|     | OBJ: TYPE: KN | TOP: AACSB Analytic |   |

## ESSAY

1. Define product. What decisions are included in the marketing conception of a product?

ANS:

A product is a bundle of physical, service, and symbolic attributes designed to satisfy consumer wants. The marketing conception of a product includes the brand, product image, warranty, service attributes, packaging, and labeling, as well as the physical or functional characteristics of the good or service.

DIF: 2                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

2. Compare the classification of consumer goods and services to business goods and services.

ANS:

Goods and services are classified as either consumer or business depending on the purchaser of the particular item. Consumer products are those purchased by ultimate consumers for their own use. They can be convenience products, shopping products, or specialty products. Business products are those for use either directly or indirectly in the production of other goods and services for resale. They can be classified as installations, accessory equipment, component parts and materials, raw materials, and supplies. Services can be classified as either consumer or business.

DIF: 3                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Differentiate among convenience, shopping, and specialty products.

ANS:

Convenience products are items the consumer seeks to purchase frequently and immediately with little effort. Shopping products are typically purchased after the buyer has compared competing products in rival stores. Specialty products are those a purchaser is willing to make a special effort to obtain.

DIF: 2                      REF: Product Strategy                      NAT: AACSB Analytic  
MSC: TYPE: KN

4. Explain the relationship between a company's product line and product mix.

ANS:

A product line is a series of related products marked by physical similarities or intended for a similar market. A product mix is the assortment of product lines and individual goods and services that a firm offers to consumers and business users.

DIF: 2                      REF: Product Strategy              NAT: AACSB Analytic  
MSC: KN

5. What are the major stages of the product life cycle? How can marketing planners anticipate future developments of a product based on the stages?

ANS:

The product life cycle refers to the four stages a product goes through from the time it first enters the market until it is no longer a viable product. These stages are introduction, growth, maturity, and decline. The opportunities and challenges facing marketers differ depending on the stage of the cycle. For example, in the introductory stage the firm must provide basic product information to consumers who are unfamiliar with the new product. However, in the maturity stage, the product faces increased competition from similar products offered by other firms, so the firm must concentrate on building brand loyalty. Thus, knowledge of the cycle provides marketing planners with important insights that allow them to anticipate developments and develop strategies.

DIF: 3                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking              MSC: TYPE: AP

6. What are the advantages and disadvantages of test marketing?

ANS:

Test marketing allows the firm to gain insights into a product's likely market performance before making a major commitment to a full-scale introduction. The results of test marketing can be used to make adjustments to the product and promotional efforts that increase the chances of a successful product launch. However, test marketing has some drawbacks. It can be expensive, delay the introduction of a product, and provide competitors with advance warning about the firm's new products. In some cases, competitors are able to skew the results of test marketing by running special promotions or advertising campaigns.

DIF: 3                      REF: Product Life Cycle  
OBJ: TYPE: AP              TOP: AACSB Reflective Thinking

7. Differentiate between a brand, a brand name, and a trademark.

ANS:

A brand is a name, term, sign, symbol, design (or a combination) used to identify the products of one firm and differentiate them from competing products. A brand name is that part of the brand consisting of words or letters included in a name used to identify and distinguish the firm's products from those of competitors. A trademark is a brand that has been given legal protection.

DIF: 2                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

8. Describe the three levels of brand loyalty.

ANS:

Brand recognition is brand acceptance strong enough so that the consumer is aware of the brand, but not strong enough to cause a preference over other brands. Brand preference occurs when a consumer chooses one firm's brand over a competitor's. Brand insistence is the ultimate degree of brand loyalty, in which the consumer will accept no substitute for the preferred brand.

DIF: 2                      REF: Product Identification NAT:                      AACSB Analytic  
MSC: KN

9. Discuss how marketing intermediaries add value to a product as it moves through the distribution channel. What are the two main categories of marketing intermediaries?

ANS:

Marketing intermediaries, also known as middlemen, move goods between producers and consumers or business users. Marketing intermediaries perform various functions that help the distribution channel operate smoothly, such as buying, selling, storing, and transporting products. The two main categories of marketing intermediaries are wholesalers and retailers.

DIF: 2                      REF: Distribution Strategy OBJ:                      AP  
MSC: AACSB Reflective Thinking

10. Explain the difference between direct and indirect distribution channels. Give an example of each type.

ANS:

A direct distribution channel is one that moves goods and services directly from the producer to the ultimate user. Consumers and businesses that purchase computers directly from manufacturers, such as Dell computers, are using a direct distribution channel. An indirect distribution channel is one where the goods and services move first to an intermediary, such as a wholesaler or retailer, before moving to the ultimate user. For example, Amazon.com would be the intermediary between a consumer and a publishing house.

DIF: 3                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Explain the wheel of retailing.

ANS:

The wheel of retailing is a theory that explains how and why retailing strategies change over time. According to the theory, new types of retailers enter the market and gain a competitive foothold by offering low prices and limited services. Once they become established, these companies gradually add more services, forcing them to raise prices and making them vulnerable to newer retailing models with appeals based on low prices.

DIF: 2                      REF: Retailing                      NAT: AACSB Reflective Thinking  
MSC: AP

12. Discuss the various levels of distribution intensity.

ANS:

Intensive distribution is a market coverage strategy used to place a product in nearly every available outlet. Exclusive distribution, the opposite of intensive distribution, is when the manufacturer gives a retailer or wholesaler the exclusive right to sell its products in a specific geographic area. Selective distribution is when a limited number of retailers are selected to distribute the firm's product lines.

DIF: 3                      REF: Distribution Channel Decisions and Logistics

## 13. Describe the supply chain.

ANS:

The supply chain is the complete sequence of suppliers that contribute to creating and delivering a good or service to business users and final consumers. The supply chain begins when raw materials used in production are delivered to the manufacturer and continues with the actual production activities that create finished goods. Finally, the finished goods move through the producer's distribution channels to end users.

DIF: 2  
AnalyticREF: Distribution Channel Decisions and Logistics  
MSC: KN

NAT: AACSB

**MULTIPLE CHOICE**

1. When the average person defines a product, he or she usually considers only the product's \_\_\_\_\_.  
a. physical characteristics  
b. service attributes  
c. symbolic attributes  
d. benefits

ANS: A

DIF: 1

REF: Product Strategy

NAT: AACSB Reflective Thinking

MSC: KN

2. A bundle of physical, service, and symbolic attributes designed to satisfy customer wants is called \_\_\_\_\_.  
a. the marketing mix  
b. packaging  
c. a product  
d. a brand name

ANS: C

DIF: 1

REF: Product Strategy

NAT: AACSB Analytic

MSC: KN

3. A marketer focuses on a product's \_\_\_\_\_.  
a. physical characteristics  
b. service attributes  
c. symbolic attributes  
d. benefits

ANS: D

DIF: 2

REF: Product Strategy

NAT: AACSB Analytic

MSC: KN

4. Goods and services are classified as either consumer or business, depending on the \_\_\_\_\_.  
a. amount of service required on the item  
b. buying motives of the purchasers  
c. cost of the particular item  
d. purchasers of the particular item

ANS: D

DIF: 2

REF: Product Strategy

NAT: AACSB Analytic

MSC: KN

5. Consumer products are usually classified as \_\_\_\_\_.

- a. expense items and capital items
- b. convenience products and expense items
- c. convenience products, shopping products, and specialty products
- d. capital items, convenience items, and specialty products

ANS: C                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      KEY: KN

6. Items that consumers purchase frequently, immediately, and with little effort are \_\_\_\_\_ products.
- a. convenience
  - b. shopping
  - c. specialty
  - d. capital

ANS: A                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

7. Which of the following is a specialty product?
- a. Insurance policy
  - b. Gallon of milk
  - c. Rolex watch
  - d. Dining room set

ANS: C                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

8. Products purchased only after the consumer has compared competing products in competing stores on the basis of price, quality, style, and color would be classified as \_\_\_\_\_.
- a. supplies
  - b. shopping products
  - c. specialty products
  - d. convenience products

ANS: B                      DIF: 2                      REF: Product Strategy  
OBJ: AACSB Analytic                      MSC: KN

9. New carpeting for a home falls into which of the following classifications of goods?
- a. Specialty products
  - b. Accessory equipment
  - c. Shopping products
  - d. Convenience products

ANS: C                      DIF: 2                      REF: Product Strategy  
OBJ: AACSB Reflective Thinking                      MSC: KN

10. There are only a handful of Volvo dealers listed in the Atlanta metropolitan telephone directory. To those buyers who will accept no substitute, Volvo automobiles are \_\_\_\_\_.
- a. specialty products
  - b. convenience products
  - c. shopping products
  - d. capital items

ANS: A                      DIF: 2                      REF: Product Strategy  
OBJ: AACSB Reflective Thinking                      MSC: KN

11. Mary owns a store that prepares gourmet chocolates, which are hand-made and sold on the premises. What type of product is Mary selling?
- Convenience
  - Shopping
  - Specialty
  - Accessory

ANS: C                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: KN

12. Travis wants to replace his old mattress with a new soft-foam mattress, and has spent almost a week researching different brands and prices. When he's ready to buy, Travis will be purchasing a(n) \_\_\_\_\_ product.
- convenience
  - shopping
  - specialty
  - accessory

ANS: B                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: KN

13. When Terminex sprays a home for pests, this is an example of \_\_\_\_\_.
- consumer services
  - specialty products
  - convenience products
  - business services

ANS: A                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

14. Which of the following classifications of products apply to business goods and services?
- Supplies and specialty products
  - Specialty products and convenience products
  - Installation and accessory equipment
  - Shopping products and expense items

ANS: C                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

15. A railroad buys a new locomotive. This represents a(n) \_\_\_\_\_ purchase.
- installation
  - supply
  - specialty good
  - component part

ANS: A                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

16. Which classification of business goods is usually consumed over a long period and usually involves large sums of money?
- Convenience items
  - Capital items
  - Installations
  - Expense items

ANS: B                      DIF: 2                      REF: Product Strategy

17. Building a new bottling plant in Hungary would be classified as which of the following?
- Specialty products
  - Capital items
  - Installation
  - Shopping products

ANS: C

DIF: 2

REF: Product Strategy

NAT: AACSB Reflective Thinking

MSC: AP

18. An example of accessory items would be \_\_\_\_\_.
- computers
  - paper clips
  - cotton
  - hand tools

ANS: D

DIF: 2

REF: Product Strategy

NAT: AACSB Analytic

MSC: AP

19. The tires built by Michelin that appear on Formula 1 race cars are classified as \_\_\_\_\_.
- accessory equipment
  - component parts and materials
  - supplies
  - specialty products

ANS: B

DIF: 2

REF: Product Strategy

NAT: AACSB Reflective Thinking

MSC: AP

20. When Smith Glass Factory purchases light bulbs for everyday use, it is purchasing \_\_\_\_\_.
- expense items
  - component parts
  - raw materials
  - supplies

ANS: D

DIF: 2

REF: Product Strategy

NAT: AACSB Reflective Thinking

MSC: AP

21. Natural resources, such as iron ore used in producing finished goods, are classified as \_\_\_\_\_.
- supplies
  - accessory equipment
  - component parts and materials
  - raw materials

ANS: D

DIF: 2

REF: Product Strategy

NAT: AACSB Reflective Thinking

MSC: AP

22. A combination of product lines represents a company's \_\_\_\_\_.
- product mix
  - product cluster
  - product lifecycle
  - distribution strategy

ANS: A

DIF: 1

REF: Product Strategy

NAT: AACSB Analytic

MSC: KN

23. Ford Motor Company owns several automobile divisions including Mercury, Jaguar, Land Rover, and Mazda. This constitutes Ford's \_\_\_\_\_.  
a. product line  
b. product cluster  
c. product mix  
d. distribution strategy

ANS: C                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: TYPE: AP

24. A product line is a group of \_\_\_\_\_ products marked by physical \_\_\_\_\_.  
a. related; similarities  
b. unrelated; similarities  
c. related; differences  
d. unrelated; differences

ANS: A                      DIF: 3                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

25. Procter & Gamble produces several brands of toothpaste, which constitute a \_\_\_\_\_.  
a. distribution strategy  
b. product mix  
c. product line  
d. product cluster

ANS: B                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

26. Coppertone manufactures sunscreens with various SPF factors, which constitutes the company's \_\_\_\_\_.  
a. product line  
b. product cluster  
c. distribution strategy  
d. product mix

ANS: A                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Sharper Image's collection of high-tech gadgets and electronic equipment encompasses the company's \_\_\_\_\_.  
a. product mix  
b. product line  
c. product cluster  
d. distribution strategy

ANS: A                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

28. In a process called \_\_\_\_\_, products pass through a series of stages from their initial appearance to their decline.  
a. wheel of retailing  
b. promotional cycle  
c. pricing cycle  
d. product life cycle

ANS: D                      DIF: 1                      REF: Product Life Cycle



29. Since potential customers are unaware of a product during its introductory stage, initial promotion concentrates on \_\_\_\_\_.
- informing the market about the item and explaining its features, uses, and benefits
  - reducing the size of an available market through selective advertising
  - word-of-mouth referrals
  - communicating new uses for the product

ANS: A

DIF: 2

REF: Product Life Cycle

NAT: AACSB Analytic

MSC: KN

30. In which stage of the product life cycle do profits generally first appear?
- Decline stage
  - Introductory stage
  - Growth stage
  - Maturity stage

ANS: C

DIF: 2

REF: Product Life Cycle

NAT: AACSB Analytic

MSC: KN

31. In which stage of the product life cycle do competitors enter the field with similar offerings?
- Maturity stage
  - Growth stage
  - Introductory stage
  - Decline stage

ANS: B

DIF: 2

REF: Product Life Cycle

NAT: AACSB Analytic

MSC: KN

32. In which stage of the product life cycle do sales reach a saturation level, making further sales expansion difficult?
- Maturity stage
  - Growth stage
  - Introductory stage
  - Decline stage

ANS: A

DIF: 2

REF: Product Life Cycle

NAT: AACSB Analytic

MSC: KN

33. Greta has been analyzing the competitive standings of one of her products. Since she began her operation, 20 similar products have appeared, forcing her to change distribution strategies. Greta has also needed to change pricing strategies in order to remain competitive. Sales volume has dipped, and she suspects sales of her product have reached a saturation level. At what stage of the product life cycle is this item?
- Introductory stage
  - Maturity stage
  - Decline stage
  - Growth stage

ANS: B

DIF: 2

REF: Product Life Cycle

NAT: AACSB Reflective Thinking

MSC: AP

34. Breakfast cereal producers have kept developing new markets using segmented sales programs. At which stage do they try to keep the products?

- a. Growth stage
- b. Introductory stage
- c. Decline stage
- d. Maturity stage

ANS: D                      DIF: 3                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

35. The combination of industry saturation and intense competition indicates that a product has reached the \_\_\_\_\_ stage of its product life cycle.
- a. early
  - b. decline
  - c. maturity
  - d. growth

ANS: C                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

36. MP3 players were introduced a few years ago with great success. Additional companies have entered the market, and sales have continued steadily. MP3 players appear to be in the \_\_\_\_\_ stage of the product life cycle.
- a. growth
  - b. introduction
  - c. maturity
  - d. decline

ANS: A                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

37. Genuine Products has been involved in intensive price competition with one of its products. Profits are low and market researchers are concerned that losses will soon occur due to a reduced market for the item. This product has reached the \_\_\_\_\_ stage of the product life cycle.
- a. introductory
  - b. growth
  - c. decline
  - d. maturity

ANS: C                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

38. Which of the following is inconsistent with a product in its decline stage?
- a. Producers are beginning to leave the industry.
  - b. Prices begin to decline sharply.
  - c. Few changes occur in the product features.
  - d. Promotion activities are kept to a minimum.

ANS: B                      DIF: 3                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

39. The new-product development stage that deals with the elimination of ideas that do not mesh with overall company objectives is \_\_\_\_\_.
- a. testing
  - b. screening
  - c. commercialization
  - d. product development

ANS: B                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

40. Rachael is developing a new product and is working with specialists from her organization to eliminate ideas that cannot be developed within the company's resources. Rachael is in what stage of product development?
- a. Test marketing
  - b. Product development
  - c. Screening
  - d. Commercialization

ANS: C                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

41. Deshauna is assessing a new product's potential sales and competitive strengths, and will obtain initial consumer reaction before the product is sold. Deshauna is in what stage of product development?
- a. Screening
  - b. Test marketing
  - c. Commercialization
  - d. Concept development and business analysis

ANS: D                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Charles works for Whirlpool and is producing a new washer/dryer unit. He is collaborating with the marketing staff to arrange for a series of designs, tests, and functioning prototypes. Charles is working in which stage of new-product development?
- a. Test marketing
  - b. Screening
  - c. Commercialization
  - d. Product development

ANS: D                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Firms give all of the following reasons for skipping test marketing EXCEPT:
- a. Test marketing is expensive.
  - b. Test marketing can alert competitors to a company's plans.
  - c. Competitors can skew results by lowering prices or running special promotions.
  - d. Most test marketing campaigns fail.

ANS: D                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: KN

44. While marketing a new wireless phone, Mobile Media Corporation decided to skip the \_\_\_\_\_ stage of product development due to the expense of developing a limited production run, as well as concern over revealing product strategies to the competition.
- a. screening
  - b. product development
  - c. test marketing
  - d. concept development and business analysis

ANS: C                      DIF: 3                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

45. A brand that has been given legal protection is known as a \_\_\_\_\_.  
a. patent  
b. copyright  
c. trademark  
d. royalty

ANS: C

DIF: 1

REF: Product Identification

NAT: AACSB Analytic

MSC: KN

46. American Express is an effective brand name because it \_\_\_\_\_.  
a. is easy to pronounce, recognize, and remember  
b. is trademarked  
c. accurately describes the product  
d. has been around for decades

ANS: A

DIF: 1

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

47. When Walgreens puts its own line of cough syrup on the shelf next to Robitussin, the store is promoting its \_\_\_\_\_ brand.  
a. individual  
b. private  
c. manufacturer  
d. family

ANS: B

DIF: 2

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

48. Advertising slogans, such as “Just Do It” or “Obey Your Thirst,” are \_\_\_\_\_ that are given legal protection solely to the brand’s owner.  
a. brand names  
b. trademarks  
c. registered phrases  
d. catchphrases

ANS: B

DIF: 3

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

49. Dole Food Company uses a(n) \_\_\_\_\_ brand to market the company’s entire line of food products, including canned fruits and packaged salads.  
a. family  
b. private  
c. individual  
d. distribution

ANS: A

DIF: 2

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

50. Procter & Gamble markets laundry soap with the brand names of Tide, Cheer, and Dash. Each brand targets a specific market segment. Procter & Gamble is utilizing \_\_\_\_\_ branding.  
a. private  
b. family  
c. generic  
d. individual

ANS: D

DIF: 2

REF: Product Identification

51. Cosmetics are often representative of what level of brand loyalty?
- Brand comprehension
  - Brand recognition
  - Brand insistence
  - Brand preference

ANS: C

DIF: 2

REF: Product Identification

NAT: AACSB Analytic

MSC: KN

52. Luis wants a particular brand of golf ball, but his local pro shop is out of stock. Instead of buying a substitute, Luis goes home and orders his preferred brand online. Luis is at which stage of brand loyalty?
- Brand awareness
  - Brand insistence
  - Brand preference
  - Brand recognition

ANS: B

DIF: 2

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

53. Jim stops at the local convenience store to buy a six-pack of beer. He wants Miller Lite, but if the store does not carry it, he will settle for Bud Light. Jim is at which stage of brand loyalty?
- Brand insistence
  - Brand awareness
  - Brand preference
  - Brand recognition

ANS: C

DIF: 2

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

54. Mercedes-Benz is an example of a company that benefits from the added value of its successful name. This brand \_\_\_\_\_ can result in financial gain due to large market shares and decreased price sensitivity.
- awareness
  - recognition
  - equity
  - association

ANS: C

DIF: 3

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

55. The main role of packaging in today's marketing economy is to \_\_\_\_\_.
- control cost
  - identify products and communicate usage
  - protect the product from damage
  - comply with government regulations

ANS: B

DIF: 2

REF: Product Identification

NAT: AACSB Analytic

MSC: KN

56. FTD's Mercury with wings symbol enjoys 97% consumer recognition, which the company uses to attract exclusive contracts with floral shops. What type of brand selling is the company using with its logo?

- a. Brand equity
- b. Brand awareness
- c. Brand insistence
- d. Brand recognition

ANS: B

DIF: 3

REF: Product Identification

NAT: AACSB Reflective Thinking

MSC: AP

57. \_\_\_\_\_ is responsible for moving goods and services from producers to buyers.

- a. Production
- b. Distribution
- c. Marketing
- d. Logistics

ANS: B

DIF: 1

REF: Distribution Strategy

NAT: AACSB Analytic

MSC: KN

58. Raoul's job is to make sure that his company's goods get from the warehouse to retailers in a timely fashion. Raoul's job involves the \_\_\_\_\_ function.

- a. production
- b. distribution
- c. management
- d. finance

ANS: B

DIF: 1

REF: Distribution Strategy

NAT: AACSB Reflective Thinking

MSC: AP

59. The two major components that comprise distribution strategy are \_\_\_\_\_.

- a. selling and advertising
- b. production scheduling and inventory control
- c. branding and customer service
- d. direct and indirect channels

ANS: D

DIF: 1

REF: Distribution Strategy

NAT: AACSB Analytic

MSC: KN

60. Marketing intermediaries include \_\_\_\_\_.

- a. neither wholesalers nor retailers
- b. retailers but not wholesalers
- c. wholesalers but not retailers
- d. both wholesalers and retailers

ANS: D

DIF: 2

REF: Distribution Strategy

NAT: AACSB Analytic

MSC: KN

61. The use of direct distribution channels is most common in the \_\_\_\_\_ market.

- a. business-to-consumer (B2C)
- b. professional services
- c. business-to-business (B2B)
- d. automobile

ANS: C

DIF: 2

REF: Distribution Strategy

NAT: AACSB Analytic

MSC: KN

62. Lee purchased a new PC from Dell Computer's Web site. He purchased his product via a(n) \_\_\_\_\_.

- a. direct distribution channel

- b. indirect distribution channel
- c. wholesaler
- d. retailer

ANS: A                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

63. The two main categories of marketing intermediaries are \_\_\_\_\_.
- a. retailers and wholesalers
  - b. retailers and transportation companies
  - c. wholesalers and warehouse operators
  - d. warehouse operators and transportation companies

ANS: A                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

64. Wholesaling intermediaries are persons or firms that sell primarily to \_\_\_\_\_.
- a. people for their own use
  - b. industrial users
  - c. other wholesalers, industrial users, and retailers
  - d. retailers but never to other wholesalers

ANS: C                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

65. Wholesaling intermediaries are classified on the basis of \_\_\_\_\_.
- a. size
  - b. ownership
  - c. location
  - d. services provided

ANS: B                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

66. A food producer's goods are carried by thousands of grocery stores across the country. Which of the following distribution channels is the manufacturer most likely to use?
- a. Producer to retailer to consumer
  - b. Producer to wholesaler to retailer to consumer
  - c. Producer to wholesaler to wholesaler to retailer to consumer
  - d. Producer to consumer

ANS: B                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: AP

67. The Pampered Chef sells gourmet cooking supplies to consumers through the use of cooking parties at the homes of its salespeople. The Pampered Chef is a \_\_\_\_\_ retailer and uses \_\_\_\_\_.
- a. non-store; direct-response retailing
  - b. non-store; direct selling
  - c. store; direct-response retailing
  - d. store; direct selling

ANS: B                      DIF: 3                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

68. Vending machines are an example of \_\_\_\_\_.
- a. direct selling

- b. direct-response retailing
- c. automatic merchandising
- d. indirect selling

ANS: C                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

69. Ordering merchandise from eBay or Amazon.com is a \_\_\_\_\_ form of nonstore retailing.
- a. direct-response selling
  - b. Internet retailing
  - c. automatic merchandising
  - d. direct selling

ANS: D                      DIF: 3                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

70. Costco is an example of a \_\_\_\_\_.
- a. discount store
  - b. warehouse club
  - c. factory outlet
  - d. supercenter

ANS: B                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

71. The first step in developing a competitive retailing strategy is to \_\_\_\_\_.
- a. decide on general product categories
  - b. decide on the best location
  - c. identify a target market
  - d. identify the necessary level of customer service

ANS: C                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

72. Peapod is an online grocery service that handles product selection, packing, and delivery. Peapod is utilizing a \_\_\_\_\_ retail strategy.
- a. pricing
  - b. promotional
  - c. customer service
  - d. product

ANS: C                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

73. A firm's most important consideration in choosing a distribution channel is the \_\_\_\_\_.
- a. market segment it will serve
  - b. characteristics of the product
  - c. firm's management, financial, and marketing resources
  - d. competitive pressures

ANS: A                      DIF: 1                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Analytic                      MSC: KN

74. If a company's target market is small and buyers are concentrated in a specific geographical area, which distribution channel would be most effective?
- a. Direct channel



- b. Use of multiple market intermediaries
- c. Long distribution channel
- d. Producer to wholesaler to retailer to consumer

ANS: A                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Reflective Thinking                      MSC: AP

75. Media companies that consider entering into satellite radio will carefully monitor the progress of XM and Sirius for \_\_\_\_\_ before choosing the market as a distribution channel.
- a. product innovation
  - b. competitive performance
  - c. management performance
  - d. marketing effectiveness

ANS: B                      DIF: 3                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Reflective Thinking                      MSC: AP

76. Which of the following approaches are used by computer manufacturers such as Compaq and Hewlett-Packard?
- a. Intensive distribution
  - b. Selective distribution
  - c. Exclusive distribution
  - d. Scrambled distribution

ANS: B                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Reflective Thinking                      MSC: AP

77. Newspapers and magazines use which approach to distribution intensity?
- a. Intensive distribution
  - b. Selective distribution
  - c. Exclusive distribution
  - d. Scrambled distribution

ANS: A                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Analytic                      MSC: KN

78. Intensive distribution is a strategy used by the marketers of which of the following products?
- a. Honda Accords
  - b. Gateway computers
  - c. Pepsi
  - d. Cartier watches

ANS: C                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Reflective Thinking                      MSC: AP

79. Exclusive distribution is well suited for \_\_\_\_\_.
- a. low-priced convenience goods
  - b. luxury automobiles
  - c. franchised specialty goods
  - d. products sold at superstores

ANS: B                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Reflective Thinking                      MSC: AP

80. Which of the following approaches would result in the fewest number of intermediaries?
- a. Intensive distribution

- b. Selective distribution
- c. Exclusive distribution
- d. Scrambled distribution

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

81. The complete sequence of suppliers that contribute to creating and delivering a good or service is called the \_\_\_\_\_.
- a. production cycle
  - b. chain of command
  - c. supply chain
  - d. physical distribution process

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

82. Where does the supply chain begin?
- a. Producer
  - b. Delivery of raw materials
  - c. Creation of the good or service
  - d. Delivery of the good or service to a marketing intermediary

ANS: B                      DIF: 1  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

83. Where does the supply chain end?
- a. Producer
  - b. Wholesaler
  - c. Customer
  - d. Physical distribution system

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

84. Yvonne's job is to coordinate the flow of raw materials from suppliers to her company's various production facilities. Which of the following best describes what Yvonne does?
- a. Physical distribution
  - b. Supply chain
  - c. Inventory management
  - d. Logistics

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Distribution Channel Decisions and Logistics  
MSC: KN

85. The activities involved with the actual movement of goods from the producer to the user are part of the \_\_\_\_\_.
- a. product strategy
  - b. channels of distribution
  - c. atmospherics
  - d. physical distribution

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

86. What method of transportation accounts for the majority of finished goods finding their way to consumers?
- Water
  - Air Freight
  - Trucks
  - Railroads

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Distribution Channel Decisions and Logistics  
MSC: KN

87. A building contractor is creating a southwestern-style restaurant in Manhattan. Which method of transportation would be best for shipping ceramic tile from New Mexico to New York?
- Truck
  - Air
  - Railroad
  - Water

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Distribution Channel Decisions and Logistics  
MSC: AP

### TRUE/FALSE

1. A product is a bundle of physical, service, and symbolic attributes.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

2. All products must have physical characteristics.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

3. The appropriate distribution, promotion, and pricing strategies are essentially the same for most business and consumer products.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

4. Customer service is a part of product strategy.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

5. The three categories of consumer products are convenience goods, shopping goods, and specialty products.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

6. The appropriate marketing strategy may be different for convenience goods and specialty goods.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

7. A new refrigerator is classified as a specialty product.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

8. Goods and services are classified as either consumer or business, depending on the purchaser.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

9. A new computer server is classified as an expense item.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: KN

10. In the consumer's mind, the service provider *is* the service.

ANS: T                      DIF: 2                      REF: Product Strategy  
OBJ: AACSB Analytic                      MSC: KN

11. A company's product line is a group of unrelated products.

ANS: F                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

12. A company's product mix is its assortment of product lines.

ANS: T                      DIF: 1                      REF: Product Strategy  
NAT: AACSB Analytic                      MSC: KN

13. Gillette produces several different types of razors. This represents Gillette's product mix.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

14. The assortment of cereals manufactured under the Kellogg's name, such as Corn Flakes and Raisin Bran, constitutes the company's product line.

ANS: F                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

15. When Arm & Hammer branches out from baking soda into laundry detergent and toothpaste, the company is expanding its product mix.

ANS: T                      DIF: 2                      REF: Product Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

16. Most products take about the same amount of time to pass through each life-cycle stage.

ANS: F                      DIF: 1                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

17. Technological changes can compress the life cycle of products.

ANS: T                      DIF: 1                      REF: Product Life Cycle  
NAT: AACSB Technology                      MSC: KN

18. The early stages of a product's life cycle are generally the most profitable for the company because there is little competition.

ANS: F                      DIF: 1                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

19. Most products experience the fastest sales growth during their introductory stages.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

20. Price increases become common during a product's mature stage.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

21. During the maturity stage, firms aggressively protect their market share and distinguish their products from those of competitors.

ANS: T                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

22. When Subway uses selective stores around the country to introduce a new food item, they are in the growth stage of a product life cycle.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

23. Promotion activities increase substantially when a product begins to enter the decline stage.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

24. Some products can be highly profitable during the later stages of their life cycle because the initial development costs already have been recovered.

ANS: T                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

25. Only about one-third of new products become successful.

ANS: T                      DIF: 3                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

26. As a new product moves through the stages of new-product development, the risk of failure declines significantly.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

27. Because test marketing can be very expensive, most firms should use it only if the new product is either expensive or innovative.

ANS: F                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

28. Commercialization is also known as the product launch.

ANS: T                      DIF: 2                      REF: Product Life Cycle  
NAT: AACSB Analytic                      MSC: KN

29. A brand may be a name, term, sign, symbol, or design used to identify a product.

ANS: T                      DIF: 1                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

30. Trademark protection extends to pictorial designs and slogans.

ANS: T                      DIF: 2                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

31. Many large retailers sell both a private brand and a manufacturer's brand, which are produced by the same manufacturer.

ANS: T                      DIF: 2                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

32. *Aspirin* and *zipper* were once brand names.

ANS: T                      DIF: 3                      REF: Product Identification  
NAT: AACSB Reflective Thinking                      MSC: AP

33. Johnson & Johnson is an example of an individual brand.

ANS: F                      DIF: 1                      REF: Product Identification  
NAT: AACSB Reflective Thinking                      MSC: AP

34. Karen is aware of both Coke and Pepsi, but she buys whichever is on sale. Karen is at the stage of brand recognition but not yet at the stage of brand preference.

ANS: T                      DIF: 2                      REF: Product Identification  
NAT: AACSB Reflective Thinking                      MSC: AP

35. A consumer who is at the stage of brand insistence will buy a competing brand only if his or her preferred brand is unavailable.

ANS: F                      DIF: 2                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

36. Unlike traditional brand or product managers, category managers have profit responsibility for their product group.

ANS: T                      DIF: 3                      REF: Product Identification  
NAT: AACSB Analytic                      MSC: KN

37. Marketers who ship products to other countries are required to comply with labeling requirements in those nations.
- ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
38. Physical distribution is the movement of products from producer to user.
- ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
39. The two major components of an organization's distribution strategy are direct distribution and the use of marketing intermediaries.
- ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
40. A marketing intermediary is a person or firm that operates between the producer and the consumer or industrial purchaser.
- ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
41. Wholesalers are examples of marketing intermediaries.
- ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
42. Marketing intermediaries provide a number of services to producers, though financing is never one of them.
- ANS: F                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
43. Retailers such as Home Depot and Auto Zone are too large to be considered marketing intermediaries.
- ANS: F                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP
44. Adding a marketing intermediary to the distribution process often lowers consumer prices.
- ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
45. Sales offices typically do not store or warehouse any inventory.
- ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN
46. Merchant wholesalers are independently owned and take actual title to the goods they handle.
- ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

47. Agents and brokers may take possession of the goods they handle, but they never take title.

ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

48. Lands' End and other catalog retailers are classified as non-store, direct sellers of goods.

ANS: F                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

49. One advantage of Internet retailing is that adding a large product mix to a Web site is less costly than making room on a store's shelves.

ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

50. Vending machines are an example of automatic merchandising.

ANS: T                      DIF: 1                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

51. According to the wheel of retailing, new types of retailers enter the market and gain a competitive foothold by offering superior service.

ANS: F                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Analytic                      MSC: KN

52. Retailers such as Best Buy and Circuit City offer to install the car stereos they sell. By doing so, these retailers are adding value to products.

ANS: T                      DIF: 2                      REF: Distribution Strategy  
NAT: AACSB Reflective Thinking                      MSC: AP

53. The first step in developing a competitive retailing strategy is choosing a location.

ANS: F                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Analytic                      MSC: KN

54. A firm's most important consideration in choosing a distribution channel is competition.

ANS: F                      DIF: 1                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Analytic                      MSC: KN

55. To reach a target market with a small number of buyers, a direct distribution channel is often the best choice.

ANS: T                      DIF: 2                      REF: Distribution Channel Decisions and Logistics  
NAT: AACSB Analytic                      MSC: KN

56. Because of their size, start-up manufacturers are almost always forced to use the services of marketing intermediaries.

ANS: F                      DIF: 2                      REF: Distribution Channel Decisions and Logistics



NAT: AACSB Analytic

MSC: KN

57. Complex, expensive products generally require long distribution channels.

ANS: F                      DIF: 1

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

58. The most common market coverage for low-priced convenience items is intensive distribution.

ANS: T                      DIF: 1

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

59. An exclusive distribution contract allows the retailer to carry an adequate inventory and provide service facilities.

ANS: T                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

60. The end of the supply chain is when goods or services are delivered to marketing intermediaries.

ANS: F                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

61. Logistics is the process of coordinating the flow of goods, services, and information among all members of the supply chain.

ANS: T                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

62. The major goal of logistics management is to improve the speed at which goods, services, and information flow through the supply chain.

ANS: F                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

63. Speed is the major contributor to cost.

ANS: T                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

64. Transportation by truck is extremely economical.

ANS: F                      DIF: 1

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Analytic

MSC: KN

65. Furniture arriving from Denmark to the United States would most likely be shipped via water transportation.

ANS: T                      DIF: 2

REF: Distribution Channel Decisions and Logistics

NAT: AACSB Reflective Thinking

MSC: AP

## Chapter 14—Promotion and Pricing Strategies

### MATCHING

*Complete the following using the terms listed.*

- a. breakeven analysis
  - b. promotional mix
  - c. cost-based pricing
  - d. institutional advertising
  - e. discount pricing
  - f. creative selling
  - g. point-of-purchase advertising
  - h. skimming pricing
  - i. pushing strategy
  - j. pulling strategy
  - k. integrated marketing communications
  - l. cooperative advertising
  - m. odd pricing
1. \_\_\_\_\_ involves messages that promote concepts, ideas, philosophies, or goodwill for industries, companies, organizations, or government entities.
  2. A(n) \_\_\_\_\_ relies on personal selling and sales promotion to market an item to wholesalers and retailers in a company's distribution channels.
  3. Businesses often conduct a(n) \_\_\_\_\_ to determine the minimum sales volume a product must generate at a certain price level to cover all costs.
  4. A(n) \_\_\_\_\_ strategy sets an intentionally high price relative to the prices of competing products.
  5. A(n) \_\_\_\_\_ attempts to promote a product by generating consumer demand for it, primarily through advertising and sales promotion appeals.
  6. The \_\_\_\_\_ is the combination of personal and nonpersonal selling to meet the needs of a firm's target customers and communicate its message to them.
  7. \_\_\_\_\_ is when a business drops prices for a set period of time.
  8. \_\_\_\_\_ promotes a good or service whose benefits are not readily apparent or whose purchase decision requires a close analysis of alternatives.
  9. \_\_\_\_\_ formulas calculate total costs per unit, and then add markups to cover overhead costs and generate profits.
  10. \_\_\_\_\_ consists of displays or demonstrations that promote products when and where consumers buy them.
  11. During \_\_\_\_\_, marketers coordinate all promotional activities to execute a unified, customer-focused promotional strategy.
  12. In \_\_\_\_\_ the costs of local advertising are shared among channel partners.
  13. Retailers commonly use \_\_\_\_\_ because they believe consumers favor amounts that sound less than they really are.
- 
- |                     |        |                                     |
|---------------------|--------|-------------------------------------|
| 1. ANS: D           | DIF: 2 | REF: Advertising                    |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 2. ANS: I           | DIF: 2 | REF: Pushing and Pulling Strategies |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 3. ANS: A           | DIF: 2 | REF: Pricing Strategies             |
| NAT: AACSB Analytic |        | MSC: KN                             |
| 4. ANS: H           | DIF: 2 | REF: Pricing Strategies             |
| NAT: AACSB Analytic |        | MSC: KN                             |

- |                     |        |  |
|---------------------|--------|--|
| 5. ANS: J           | DIF: 2 | REF: Pushing and Pulling Strategies      |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 6. ANS: B           | DIF: 2 | REF: The Promotional Mix                 |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 7. ANS: E           | DIF: 2 | REF: Pricing Strategies                  |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 8. ANS: F           | DIF: 2 | REF: Personal Selling                    |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 9. ANS: C           | DIF: 2 | REF: Pricing Strategies                  |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 10. ANS: G          | DIF: 2 | REF: Sales Promotion                     |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 11. ANS: K          | DIF: 2 | REF: Integrated Marketing Communications |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 12. ANS: L          | DIF: 2 | REF: Pushing and Pulling Strategies      |
| NAT: AACSB Analytic |        | MSC: KN                                  |
| 13. ANS: M          | DIF: 2 | REF: Pricing Strategies                  |
| NAT: AACSB Analytic |        | MSC: KN                                  |

## ESSAY

- Discuss how integrated marketing communications relates to a firm's overall promotional strategy.

ANS:

In practicing integrated marketing communications (IMC), a firm coordinates all promotional activities to execute a unified, customer-focused promotional strategy. IMC identifies consumer needs and then shows how a company's products meet those needs. Marketers select the promotional media that best target and reach customers. Teamwork and careful promotional planning to coordinate IMC strategy components are important elements of these programs.

DIF: 3  
Thinking

REF: Integrated Marketing Communications  
MSC: AP

NAT: AACSB Reflective

- Describe the differences between personal selling and nonpersonal selling.

ANS:

Personal selling is the most basic form of promotion: a direct person-to-person promotional presentation to a potential buyer. The buyer-seller communication can occur during a face-to-face meeting or via telephone, video conference, or interactive computer link. Nonpersonal selling consists of advertising, sales promotion, direct marketing, and public relations. Although advertising is the best-known form of nonpersonal selling, sales promotion accounts for about one half of marketing expenditures in this category.

DIF: 2  
MSC: KN

REF: The Promotional Mix

NAT: AACSB Analytic

- What are the components of the promotional mix? Outline the advantages of the components of the promotional mix.

ANS:

The five components of the promotional mix are advertising, personal selling, sales promotion, public relations, and sponsorships. The main advantage of advertising is that it reaches large consumer audiences at a low cost per contact. Personal selling has the advantage of tailoring the message for each customer. In addition, personal selling produces an immediate buyer response and its effectiveness is easily measured. Sales promotion has the advantage of attracting attention and creating awareness. Further, its effectiveness can be easily measured. Sales promotions also generally produce short-term increases in sales. Public relations can be used to enhance product or company credibility and create a positive attitude about the product or company. Sponsorships are viewed positively by consumers and enhance brand awareness.

DIF: 3  
MSC: AP

REF: The Promotional Mix

NAT: AACSB Reflective Thinking

4. What are the two basic types of advertising?

ANS:

The two basic types of advertising are product and institutional. Product advertising consists of messages designed to sell a particular good or service. Institutional advertising involves messages that promote concepts, ideas, philosophies, or goodwill for industries, companies, organizations, or government entities.

DIF: 2  
MSC: KN

REF: Advertising

NAT: AACSB Analytic

5. What is the relationship between advertising and the product life cycle?

ANS:

Informational advertising is used to build initial demand for a product in the introductory phase of the product life cycle. Persuasive advertising attempts to improve the competitive status of a product during its growth or early maturity stages of the life cycle. During the growth and maturity stages of the product life cycle, comparative advertising -- ads that compare products directly with their competitors -- often emerge. Finally, reminder-oriented advertising often appears in the late maturity or decline stages of the product life cycle to maintain awareness of the importance and usefulness of a product.

DIF: 3  
MSC: AP

REF: Advertising

NAT: AACSB Reflective Thinking

6. What is sales promotion? Give some examples of common sales promotion techniques.

ANS:

Sales promotion consists of the forms of promotion other than advertising, personal selling, and public relations that increase sales through a one-time effort. Common examples of sales promotion techniques include point-of-purchase advertising, specialty advertising, trade shows, contests, coupons, and samples.

DIF: 3  
MSC:

REF: Advertising  
KN

NAT: AACSB Analytic

7. Identify the guidelines marketers should follow in selecting a promotional mix.

ANS:

In selecting a promotional mix, marketers should first decide how to budget promotional money. Before selecting from among the many types of promotional tools, the marketer should consider the market served by the good or service. Next, the value of the product must be considered. Personal selling may be used to promote higher-priced products and advertising for lower priced ones. Sales promotion is increasingly used by marketers in combination with reminder advertising for products in the maturity phase of the product life cycle. Finally, marketers must consider the time frame involved. Advertising may be used initially to precondition a person for a personal sales presentation. Sales promotion may be added to support seasonal sales or event marketing.

DIF: 3                      REF: Personal Selling                      NAT:                      AACSB Reflective Thinking  
MSC: AP

8. What is involved in the follow-up stage of the selling process? Why is this stage important?

ANS:

The follow-up stage comes after the salesperson has closed a sale. It consists of quickly and efficiently processing the order, reassuring the customer about the purchase decision, making sure that delivery is made, the product is satisfactory, and that the customer gets any needed service. This process is vital to building goodwill and developing a long-term working relationship with customers.

DIF: 2                      REF: Personal Selling                      NAT:                      AACSB Reflective Thinking  
MSC: AP

9. How does public relations serve a marketing purpose?

ANS:

Public relations is the main tool for a company to build a favorable image with its public by providing the media with news releases, video clips, and news conferences to announce the formation of strategic alliances, management changes, financial results, and similar developments. Public relations is an efficient, indirect communications channel for promoting products.

DIF: 2                      REF: Personal Selling                      NAT:                      AACSB Reflective Thinking  
MSC: AP

10. Differentiate between a pushing and a pulling strategy.

ANS:

A pushing strategy is a sales-oriented approach, while a pulling strategy attempts to generate consumer demand through advertising and sales promotion. A pushing strategy is aimed at wholesalers and retailers, while a pulling strategy is directed at the final consumer. Most marketing situations, however, require the use of both strategies, although the emphasis can vary.

DIF: 2                      REF: Pushing and Pulling Strategies                      NAT: AACSB Analytic  
MSC: KN

11. Describe the four basic categories of pricing objectives.

ANS:

The four basic categories of pricing objectives are: profitability objectives, volume objectives (increasing market share), meeting competition, and prestige (establishing a relatively high price to develop and maintain an image of quality and exclusiveness).

DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Analytic                      MSC: KN

12. What is breakeven analysis? How do marketers use this tool?

ANS:

Breakeven analysis is a method of determining the minimum sales volume needed at a certain price to cover costs. It involves a consideration of how revenues and costs are related to sales volume. Marketers can use this type of analysis to determine the profits or losses likely to result from different prices, thus helping determine the most appropriate price for a product.

DIF: 3                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

13. Assume fixed costs equal \$300,000. The price per unit equals \$10 and the variable cost per unit equals \$7. Find the breakeven point in terms of both units sold and sales revenue.

ANS:

Breakeven point (units sold) =  $\$300,000 / \$3 = 100,000$ ; breakeven point (sales revenue) =  $100,000 \times \$10 = \$1,000,000$ .

DIF: 3                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

14. Differentiate between skimming pricing and penetration pricing.

ANS:

The strategy of skimming pricing sets the price of a new product relatively high compared with similar goods and then gradually lowers the price. Used when the market is segmented on a price basis, this strategy is effective when a firm has a substantial lead on competition with a new product. Penetration pricing sets the price of a new product relatively low compared with similar goods to gain wide market acceptance. Once this is achieved, the price is then raised.

DIF: 3                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

15. What is the relationship between price and quality?

ANS:

In general, most consumers equate higher prices with increased quality. This relationship appears to hold over a wide range of prices. However, consumers also view extreme prices as being either too expensive or too cheap, and thus have less credibility. The price-quality relationship can critically affect a firm's pricing strategy.

DIF: 2                      REF: Consumer Perceptions of Prices  
NAT: AACSB Reflective Thinking                      MSC: AP

## MULTIPLE CHOICE

1. The popular "Got Milk?" campaign was designed to boost the entire dairy industry instead of endorsing one particular brand. This type of promotion is called \_\_\_\_\_.
- name recognition
  - media dominance
  - primary demand
  - media exposure

ANS: C                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

2. Nike uses sports stars to increase sales by enhancing the public's \_\_\_\_\_ demand for their brand.
- secondary
  - selective
  - primary
  - marketplace

ANS: B                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Circulars designed to encourage the public to support nonprofit organizations such as the American Heart Association are part of a \_\_\_\_\_.
- publicity strategy
  - promotional strategy
  - distribution strategy
  - social obligation

ANS: B                      DIF: 2                      REF: Integrated Marketing Communications  
NAT: AACSB Reflective Thinking                      MSC: AP

4. Although promotion may have multiple goals, the most common goal for most firms is \_\_\_\_\_.
- providing information
  - building goodwill
  - differentiating the product
  - increasing selective demand

ANS: D                      DIF: 2                      REF: Chapter Opener  
NAT: AACSB Analytic                      MSC: KN

5. Integrated marketing communications would include all of the following EXCEPT \_\_\_\_\_.
- direct mail
  - sales promotions
  - public relations
  - distribution

ANS: D                      DIF: 1                      REF: Integrated Marketing Communications  
NAT: AACSB Analytic                      MSC: KN

6. The most basic form of promotion is \_\_\_\_\_.
- order processing and advertising
  - personal selling
  - creative selling and sales promotion
  - advertising and creative selling

ANS: B                      DIF: 1                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

7. Which of the following manufacturers and products would likely spend more on personal selling than on nonpersonal selling?
- Johnson & Johnson, Band-Aids
  - Gateway Computers, consumer personal computers
  - Boeing, 737 jetliners
  - Toshiba, DVD players

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Promotional Mix  
MSC: AP

8. A major portion of U.S. advertising is designed to \_\_\_\_\_.  
a. accentuate product value  
b. differentiate the product  
c. stimulate demand  
d. provide information

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: The Promotional Mix  
MSC: KN

9. A company includes an "instant coupon" as part of a product's package, giving the buyer a reduction off the retail price. What is the company attempting to do?  
a. Increase sales  
b. Provide information  
c. Stabilize sales  
d. Accentuate product value

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The Promotional Mix  
MSC: AP

10. When a firm tries to differentiate its products, it often applies a concept known as \_\_\_\_\_.  
a. positioning  
b. the marketing mix  
c. personal selling  
d. product valuation

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: The Promotional Mix  
MSC: KN

11. An airline advertises a low fare for flights between Chicago and Los Angeles. However, to get the low fare you have to leave before 7 a.m. or after 9 p.m. What is the airline's promotional objective?  
a. Accentuate the product's value  
b. Provide information  
c. Stabilize sales  
d. Differentiate the product

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Promotional Mix  
MSC: AP

12. A company runs ads pointing out that its products feature longer warranties than its competitor's products. The objective of the promotional strategy is to \_\_\_\_\_.  
a. differentiate the product  
b. stabilize sales  
c. provide information  
d. accentuate the product's value

ANS: D                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: The Promotional Mix  
MSC: AP

13. Chloe and Lawrence are opening a new spa and have a very limited marketing budget. They decide to utilize \_\_\_\_\_ by offering half-price chair massages outside a corporate office lobby to attract new customers.  
a. trade promotion



- b. institutional advertising
- c. creative selling
- d. guerrilla marketing

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: The Promotional Mix  
MSC: AP

14. A paid, non-personal sales communication usually directed at a large number of potential buyers is \_\_\_\_\_.

- a. the media mix
- b. sales promotion
- c. advertising
- d. publicity

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Advertising  
MSC: KN

15. Persuasive advertising is used in the \_\_\_\_\_ stages of the product life cycle.

- a. growth and introduction
- b. growth and maturity
- c. introduction and growth
- d. maturity and decline

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Advertising  
MSC: KN

16. Comparative advertising is a form of \_\_\_\_\_ advertising.

- a. corporate
- b. persuasive
- c. informative
- d. reminder-oriented

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Advertising  
MSC: KN

17. The Federated Credit Union, through its direct-mail promotion, encourages its members to write letters to members of Congress encouraging them to pass legislation favorable to credit unions. Such promotion is a form of \_\_\_\_\_ advertising.

- a. advocacy
- b. public
- c. political
- d. comparative

ANS: A                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Advertising  
MSC: AP

18. Informative advertising is most apt to be used in which stage of the product life cycle?

- a. Maturity stage
- b. Growth stage
- c. Decline stage
- d. Introductory stage

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Advertising  
MSC: KN

19. A leading manufacturer of exercise bicycles ran a full-page advertisement in a health magazine comparing the price of their bicycle with that of a leading competitor. The manufacturer is using \_\_\_\_\_.
- a. comparative advertising
  - b. reminder-oriented advertising
  - c. a pushing strategy
  - d. advocacy advertising

ANS: A                      DIF: 1                      REF: Advertising  
NAT: AACSB Reflective Thinking                      MSC: AP

20. Reminder-oriented advertising often appears in the \_\_\_\_\_ stage of the product life cycle.
- a. growth
  - b. introductory
  - c. late maturity or early decline
  - d. late growth or early maturity

ANS: C                      DIF: 2                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

21. Television is an attractive advertising medium because it \_\_\_\_\_.
- a. is relatively inexpensive
  - b. offers a rapidly growing network audience
  - c. offers mass coverage and flexibility
  - d. provides instant feedback which can be used to measure effectiveness

ANS: C                      DIF: 2                      REF: Advertising  
NAT: AACSB Reflective Thinking                      MSC: AP

22. \_\_\_\_\_ rank first among newspaper advertisers.
- a. Public service announcements
  - b. Real estate companies
  - c. Financial institutions
  - d. Retailers and auto dealers

ANS: D                      DIF: 2                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

23. Companies that provide \_\_\_\_\_ for NASCAR teams are eager to spend millions in exchange for a direct association with the biggest spectator sport in the United States.
- a. public relations
  - b. sponsorships
  - c. specialty advertising
  - d. product advertising

ANS: B                      DIF: 2                      REF: Advertising  
NAT: AACSB Reflective Thinking                      MSC: AP

24. Marketers allocate the largest share of their consumer-oriented promotions to \_\_\_\_\_.
- a. coupons
  - b. samples
  - c. rebates
  - d. premiums

ANS: D                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

25. When a grocery store in Arlington, Texas, gives free tickets to a Rangers baseball game with each purchase of over \$200, it is using a \_\_\_\_\_ concept.
- a. institutional advertising
  - b. merchandise redeemable
  - c. guerrilla marketing
  - d. premiums

ANS: D                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Reflective Thinking                      MSC: AP

26. Walsh College purchases and distributes desk clocks engraved with the words "Walsh College" for benefactors who support the school. The clocks are considered \_\_\_\_\_.
- a. samples
  - b. point-of-purchase advertising
  - c. specialty advertising
  - d. premiums

ANS: C                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Samples are particularly useful in promoting \_\_\_\_\_.
- a. concepts
  - b. services
  - c. new products
  - d. expensive products

ANS: C                      DIF: 1                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

28. Trade promotion is \_\_\_\_\_.
- a. used to promote goods or services to marketing intermediaries
  - b. often used to promote goods or services to ultimate consumers
  - c. primarily used to build goodwill
  - d. located at the manufacturers' facilities

ANS: A                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

29. The basic tasks of personal selling include \_\_\_\_\_.
- a. acting as a consultant to the customer
  - b. selecting advertising media and order processing
  - c. creative selling and sales promotion
  - d. missionary selling and public relations

ANS: A                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

30. Businesses often spend \_\_\_\_\_ as much on personal selling as on advertising.
- a. almost
  - b. twice
  - c. over three times
  - d. between five and ten times

ANS: D                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

31. Sales personnel employed by companies such as IBM and Microsoft who offer technical assistance through consulting are primarily involved in \_\_\_\_\_.  
a. missionary selling  
b. creative selling  
c. non-personal selling  
d. order processing

ANS: A                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

32. A persuasive type of promotional presentation used when the benefits of a good or service are not readily apparent is \_\_\_\_\_.  
a. missionary selling  
b. creative selling  
c. order processing  
d. sales promotion

ANS: B                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

33. Melinda is a sales representative for a publishing company that has introduced a new college-level accounting text. The text package includes a computer-based interactive program that enables students to respond to questions in class via computers located at their desks. To establish the text in colleges, Melinda will have to become involved in \_\_\_\_\_.  
a. missionary selling  
b. creative selling  
c. order processing  
d. indirect selling

ANS: B                      DIF: 3                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

34. What can a firm do if it is too difficult or too expensive to have salespeople meet all potential customers in person?  
a. Set up a focus group  
b. Meet prospects in a central location  
c. Engage in missionary selling  
d. Use telemarketing

ANS: D                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

35. The salesperson's task of identifying potential customers is known as \_\_\_\_\_.  
a. follow-up  
b. approach  
c. demonstration  
d. prospecting

ANS: D                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

36. Salespeople determine if prospects have the financial ability and authority to buy through \_\_\_\_\_.  
a. approach  
b. follow-up

- c. handling objections
- d. qualifying

ANS: D                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

37. The future attitudes of most prospects are affected by the first impression they form of the salesperson. Therefore, salespeople \_\_\_\_\_.
- a. must be selective in identifying prospects
  - b. must be tactful when they respond to objections
  - c. should carefully prepare their approach to potential customers
  - d. should use the same sales pitch to all customers

ANS: C                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

38. The use of literature and unusual visual aids is part of the \_\_\_\_\_.
- a. approach
  - b. demonstration
  - c. closing
  - d. qualifying stage

ANS: B                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

39. Tanya is an account representative for an office supply corporation who frequently provides demonstrations to business professionals. When someone complained about the company's fax machine, Tanya viewed the situation as an opportunity to \_\_\_\_\_.
- a. determine if the prospect has the ability to pay for the machine
  - b. propose alternative purchases
  - c. revise her approach to the prospect
  - d. extend the presentation and answer questions

ANS: D                      DIF: 3                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

40. The process of finalizing a sale is the \_\_\_\_\_.
- a. demonstration
  - b. closing
  - c. approach
  - d. presentation

ANS: B                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

41. Shannon sells furniture, and a couple in her store tells her they're impressed with a particular living room couch. Shannon should \_\_\_\_\_.
- a. show them a more expensive model
  - b. persuade them to buy furniture for their entire home
  - c. point out less-than-stellar aspects of the model
  - d. attempt to close the sale

ANS: D                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Elizabeth and Tom have had an in-ground swimming pool installed in their back yard. About one week after installation, the salesperson telephoned and asked if everything about the pool met with their approval. The salesperson is \_\_\_\_\_.
- a. prospecting
  - b. trying to get a repeat order
  - c. conducting a follow-up
  - d. overcoming objections

ANS: C                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Dell Computer provides inner city schools with free computers and wireless Internet access. This is an example of \_\_\_\_\_.
- a. sales promotion
  - b. public relations
  - c. personal selling
  - d. creative selling

ANS: B                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

44. Dealing with news editors, writers, and media representatives is the role of \_\_\_\_\_.
- a. point-of-purchase advertising
  - b. public relations
  - c. specialty advertising
  - d. cause advertising

ANS: B                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

45. A pushing promotional strategy is \_\_\_\_\_.
- a. designed to promote one item at a time and place it near the location of the actual purchase decision
  - b. designed to encourage consumers to ask for the product if the retailer does not carry it
  - c. primarily used when goods or services are marketed to the ultimate consumer
  - d. designed to market the product, product line, or service to wholesalers and retailers

ANS: D                      DIF: 1                      REF: Pushing and Pulling Strategies  
NAT: AACSB Analytic                      MSC: KN

46. Marketers using a pushing promotional strategy might offer which of these services to marketing intermediaries?
- a. Cash discounts
  - b. Trade discounts
  - c. Cooperative advertising allowances
  - d. Promotional materials

ANS: C                      DIF: 2                      REF: Pushing and Pulling Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

47. Promotion that is aimed at the ultimate consumer with the goal of generating demand for the good or service is based on a(n) \_\_\_\_\_.
- a. cooperative strategy
  - b. pulling strategy
  - c. pushing strategy

d. emphasis on personal selling

ANS: B

DIF: 2

REF: Pushing and Pulling Strategies

NAT: AACSB Analytic

MSC: KN

48. When a pharmaceutical company uses the phrase “ask your doctor” in its ads, the company is using a \_\_\_\_\_ strategy to appeal directly to the public instead of physicians alone.

- a. public relations
- b. pulling
- c. pushing
- d. sales promotion

ANS: B

DIF: 2

REF: Pushing and Pulling Strategies

NAT: AACSB Reflective Thinking

MSC: AP

49. Melissa is a marketing manager for the Small Business Network at American Express and regularly sends materials to various companies to participate in credit card promotions. Melissa is employing a \_\_\_\_\_ strategy.

- a. sales promotion
- b. pulling
- c. public relations
- d. pushing

ANS: D

DIF: 3

REF: Pushing and Pulling Strategies

NAT: AACSB Reflective Thinking

MSC: AP

50. Volume objectives bases pricing decisions on \_\_\_\_\_.

- a. image goals and status quo pricing
- b. supply and demand
- c. breakeven analysis
- d. market share

ANS: D

DIF: 2

REF: Pricing Objectives in the Marketing Mix

NAT: AACSB Analytic

MSC: KN

51. Assume a company wants to increase the market share of one of its products. After all of its competitors have raised prices, which of the following would be *inconsistent* with the company's objective?

- a. Maintain the price and features of its product.
- b. Add features to its product and maintain the price.
- c. Cut prices more than the competition.
- d. Add features to its product and cut the price less than the competition.

ANS: A

DIF: 3

REF: Pricing Objectives in the Marketing Mix

NAT: AACSB Reflective Thinking

MSC: AP

52. Wal-Mart's pricing objective is based primarily on \_\_\_\_\_ while a jewelry store's pricing objective is based primarily on \_\_\_\_\_.

- a. profitability; prestige
- b. profitability; profitability
- c. volume; prestige
- d. volume; profitability

ANS: C

DIF: 2

REF: Pricing Objectives in the Marketing Mix

NAT: AACSB Reflective Thinking

MSC: AP

53. A company adds several features to one of its products, and cuts the price slightly. What is the company's objective, most likely?
- a. Increase profits
  - b. Meet competition
  - c. Increase the prestige of the product
  - d. Increase the product's market share

ANS: B                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

54. Albertson's, a large supermarket chain, bases its pricing strategy primarily on which objective?
- a. Volume
  - b. Profitability
  - c. Prestige
  - d. Breakeven analysis

ANS: A                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

55. Each year, the price of flat-screen TVs slowly decreases so that more people will consider purchasing one. Manufacturers are concentrating on \_\_\_\_\_ objectives and obtaining as much market share as possible.
- a. prestige
  - b. volume
  - c. profitability
  - d. meeting competition

ANS: B                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

56. Which of the following pricing objectives has the most influence on Rolex's pricing strategy?
- a. Profitability
  - b. Prestige
  - c. Meeting the competition
  - d. Volume

ANS: B                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

57. The method of determining the minimum sales volume needed at a certain price level to cover all costs is \_\_\_\_\_.
- a. market share analysis
  - b. equilibrium pricing
  - c. return on sales
  - d. breakeven analysis

ANS: D                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

58. In breakeven analysis, total cost is composed of \_\_\_\_\_.
- a. price divided by number of units sold
  - b. variable costs minus fixed costs
  - c. total variable costs and total fixed costs
  - d. total sales minus expenses

ANS: C                      DIF: 2                      REF: Pricing Strategies



59. In breakeven analysis, the costs that change with the level of production are considered \_\_\_\_\_ costs.
- variable
  - recoverable
  - labor
  - fixed

ANS: A

DIF: 2

REF: Pricing Strategies

NAT: AACSB Analytic

MSC: KN

60. Assume a product costs \$5 each. The variable cost per unit is currently \$4, and fixed costs are \$25,000. If the company can alter its production method such that variable costs fall to \$3.50 and fixed costs rise to \$30,000, what will happen to the breakeven point?
- It will fall.
  - It will rise.
  - It will remain the same.
  - It will rise and fall later.

ANS: A

DIF: 3

REF: Pricing Strategies

NAT: AACSB Reflective Thinking

MSC: AP

61. Business costs that remain stable regardless of the production level achieved are called \_\_\_\_\_ costs.
- inflexible
  - fixed
  - variable
  - production

ANS: B

DIF: 1

REF: Pricing Strategies

NAT: AACSB Analytic

MSC: KN

62. If you did a breakeven analysis for your firm, it would be possible for you to show management the point at which \_\_\_\_\_.
- the firm's fixed costs would climb sharply
  - the firm would not make a profit if it sold additional units
  - profits would be maximized
  - the level of sales will cover all of the company's costs

ANS: D

DIF: 2

REF: Pricing Strategies

NAT: AACSB Analytic

MSC: KN

63. The Social Club is conducting a breakeven analysis to determine how many tickets it must sell at \$15 each to break even on the Holiday Dance. Fixed costs are \$2,000, and the variable cost per person is \$10. To break even, the Social Club must sell \_\_\_\_\_ tickets.
- 800
  - 500
  - 400
  - 80

ANS: C

DIF: 3

REF: Pricing Strategies

NAT: AACSB Reflective Thinking

MSC: AP

64. T-shirts Unlimited is conducting a breakeven analysis on unbleached cotton tops. Fixed costs are \$100,000 and the per-unit contribution to fixed costs is \$20. To break even, the company must sell \_\_\_\_\_ units.
- a. 20,000
  - b. 5,000
  - c. 500
  - d. 200

ANS: B                      DIF: 3                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

65. Setting a price relatively high compared to similar goods and then gradually lowering it is a pricing strategy called \_\_\_\_\_ pricing.
- a. psychological
  - b. cost-based
  - c. skimming
  - d. penetration

ANS: C                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

66. Compact disc players, introduced in the early 1980s, were frequently over \$1,000. Today disc players can be purchased for less than \$50. The early compact disc marketers were using which of the following pricing strategies?
- a. Skimming pricing
  - b. Psychological pricing
  - c. Product line pricing
  - d. Penetration pricing

ANS: A                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

67. Pure Products is introducing a new paper coffee filter at a dramatically reduced cost. Pure Products expects that competitors will come out with similar products within a short period of time. Which pricing strategy will enable Pure Products to discourage competitors?
- a. Skimming pricing
  - b. Penetration pricing
  - c. Psychological pricing
  - d. Cost-based pricing

ANS: B                      DIF: 3                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

68. Competitive pricing focuses on \_\_\_\_\_.
- a. variable pricing
  - b. penetration pricing
  - c. the marketing mix
  - d. skimming pricing

ANS: C                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

69. Texaco and Shell are located directly across the street from one another. Texaco lowers its price for regular unleaded by 5 cents, and Shell quickly follows suit. What pricing objective is Shell using?
- a. Competitive Pricing

- b. Skimming Pricing
- c. Odd Pricing
- d. Penetration Pricing

ANS: A                      DIF: 2                      REF: Pricing Strategies  
 NAT: AACSB Reflective Thinking                      MSC: AP

70. A local bakery wanted to attract more customers during the week, so it began offering a dozen bagels for \$5 every Wednesday. The bakery utilized \_\_\_\_\_ pricing to increase its volume of sales.
- a. discount
  - b. skimming
  - c. odd
  - d. everyday low

ANS: A                      DIF: 2                      REF: Pricing Strategies  
 NAT: AACSB Reflective Thinking                      MSC: AP

71. Which of the following statements is supported by research?
- a. The higher the price, the greater the sales volume.
  - b. Consumers' perception of product quality is related closely to the item's price.
  - c. Perception of quality has no relationship to price.
  - d. Quality and price always go hand-in-hand.

ANS: B                      DIF: 2                      REF: Consumer Perceptions of Prices  
 NAT: AACSB Analytic                      MSC: KN

72. Chris is allowed to purchase a reasonably priced notebook computer for graduation. He sees one in Best Buy for \$999.99 and calls his parents to assure them he's spending "less than a thousand." Both Chris and Best Buy are using \_\_\_\_\_ to downplay the price of the computer.
- a. cost-based pricing
  - b. personal selling
  - c. price fixing
  - d. odd pricing

ANS: D                      DIF: 2                      REF: Consumer Perceptions of Prices  
 NAT: AACSB Reflective Thinking                      MSC: AP

73. Madison owns an upscale accessory boutique and drastically reduced some earrings to make room for new inventory. When the earrings didn't sell in the "discount basket," she put them back on the shelf at regular price and they sold within a month. What is her customers' perception of price?
- a. Value-quality
  - b. Price-quality
  - c. Price-prestige
  - d. Prestige-quality

ANS: B                      DIF: 3                      REF: Consumer Perceptions of Prices  
 NAT: AACSB Reflective Thinking                      MSC: AP

74. Cocina Mas Fina makes all its menu items from scratch and uses authentic Mexican herbs in its dishes. As a result of the restaurant's focus on using specialty ingredients, prices are 75 percent higher than the competition's. Cocina Mas Fina knows \_\_\_\_\_.
- a. the higher the price, the better its perceived quality
  - b. people always pay more for items that are unfamiliar to them
  - c. people think that the competition's food is priced too low
  - d. experience has taught consumers to ignore prices

ANS: A                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Consumer Perceptions of Prices  
MSC: AP

## TRUE/FALSE

1. An integrated marketing communications strategy focuses on customer needs to create a diverse promotional message.

ANS: F                      DIF: 1                      REF: Integrated Marketing Communications  
NAT: AACSB Analytic                      MSC: KN

2. Promotional campaigns are designed to develop primary demand.

ANS: F                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

3. The fundamental purpose of promotion is to inform customers about the benefits of products.

ANS: F                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

4. To gain a competitive advantage, marketers that utilize integrated marketing communications need a selective view of promotion.

ANS: F                      DIF: 3                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

5. Manufacturers of B2B products typically spend more on personal selling than on advertising.

ANS: T                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

6. Advertising is a form of personal selling.

ANS: F                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

7. A major portion of U.S. advertising is information oriented.

ANS: T                      DIF: 1                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

8. Differentiating a product is the most common objective of a promotional strategy.

ANS: F                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

9. Positioning is an attempt by marketers to establish unique places for their products in the minds of consumers.

ANS: T                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

10. When a hotel offers special weekend packages, it is attempting to stabilize sales.

ANS: T                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

11. Many marketers pay placement fees to promote their products.

ANS: T                      DIF: 2                      REF: The Promotional Mix  
NAT: AACSB Analytic                      MSC: KN

12. All of the world's top advertisers are headquartered in the United States.

ANS: F                      DIF: 2                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

13. Advertising is the most visible form of non-personal promotion.

ANS: T                      DIF: 1                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

14. The top spenders on television advertising are food and drug companies.

ANS: F                      DIF: 1                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

15. An ad claiming that Brand A works better than Brand B is an example of reminder-oriented advertising.

ANS: F                      DIF: 2                      REF: Advertising  
NAT: AACSB Reflective Thinking                      MSC: AP

16. Persuasive advertising is used to improve the competitive status of a product and is usually used during a product's growth stage.

ANS: T                      DIF: 1                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

17. Television advertising is considered the easiest way to reach the widest audience.

ANS: T                      DIF: 3                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

18. Magazines are a natural choice for targeted advertising.

ANS: T                      DIF: 2                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

19. The fastest-growing advertising medium is the Internet.

ANS: T                      DIF: 1                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

20. A drawback of outdoor advertising is its inability to convey simple ideas quickly.

ANS: F                      DIF: 1                      REF: Advertising  
NAT: AACSB Analytic                      MSC: KN

21. Sales promotion is still considered to be a supplement to a firm's advertising efforts.

ANS: F                      DIF: 1                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

22. About 10 percent of all sales promotion dollars are spent on premiums.

ANS: F                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

23. Coupons have the advantage of focusing customers on brand loyalty rather than price.

ANS: F                      DIF: 1                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

24. Trade promotion is sales promotion geared to marketing intermediaries.

ANS: T                      DIF: 1                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

25. Businesses spend about twice as much on advertising as they do on personal selling.

ANS: F                      DIF: 2                      REF: Sales Promotion  
NAT: AACSB Analytic                      MSC: KN

26. Order processing is most often related to retail and wholesale firms.

ANS: T                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

27. Missionary selling is used for selling goods whose benefits are not readily apparent.

ANS: F                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

28. Creative selling involves a persuasive type of promotional presentation.

ANS: T                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

29. A sales representative who calls people at home is practicing inbound telemarketing.

ANS: F                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

30. The first step in the sales process is to identify the potential customer.

ANS: T                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

31. Jamal, the service manager for a local Ford dealer, makes a point of sending out letters to all customers asking whether or not they are satisfied with their purchase. Jamal is conducting a follow-up.

ANS: T                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

32. Public relations is more important for not-for-profit organizations than for general corporations.

ANS: F                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

33. Public relations refers to an organization's nonpaid communications.

ANS: T                      DIF: 1                      REF: Personal Selling  
NAT: AACSB Analytic                      MSC: KN

34. Most publicists would agree there is no such thing as bad publicity.

ANS: F                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

35. Employee volunteers clean up a neighborhood playground. In the process, employees handed out free product samples from the company. This is an example of a publicity campaign.

ANS: T                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

36. A company is selling condominiums in Aspen. It is likely to rely more on advertising in its promotional mix than personal selling.

ANS: F                      DIF: 2                      REF: Personal Selling  
NAT: AACSB Reflective Thinking                      MSC: AP

37. A pulling strategy relies less on advertising than does a pushing strategy.

ANS: F                      DIF: 1                      REF: Pushing and Pulling Strategies  
NAT: AACSB Analytic                      MSC: KN

38. Marketers often emphasize a pulling strategy for consumer products and a pushing strategy for business products.

ANS: T                      DIF: 2                      REF: Pushing and Pulling Strategies  
NAT: AACSB Analytic                      MSC: KN

39. A pushing strategy is designed to motivate wholesalers and retailers.

ANS: T                      DIF: 1                      REF: Pushing and Pulling Strategies  
NAT: AACSB Analytic                      MSC: KN

40. Marketers rarely try to combine pushing and pulling strategies in the same promotional campaign.

ANS: F                      DIF: 2                      REF: Pushing and Pulling Strategies  
NAT: AACSB Analytic                      MSC: KN

41. Profitability objectives are perhaps the most common objectives included in the strategic plans of most firms.

ANS: T                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Analytic                      MSC: KN

42. When a cereal box is filled with more air than cereal, the manufacturer is trying to increase profits through volume objectives.

ANS: F                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Reflective Thinking                      MSC: AP

43. Limited availability can create product prestige.

ANS: T                      DIF: 2                      REF: Pricing Objectives in the Marketing Mix  
NAT: AACSB Analytic                      MSC: KN

44. Fixed costs are the costs to produce one unit, regardless of output.

ANS: F                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

45. Breakeven analysis calculates the level of sales required to cover all of the company's fixed and variable costs.

ANS: T                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

46. The breakeven point determines at which point to halt production because sales beyond the breakeven point result in losses to the firm.

ANS: F                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

47. If a product sells for \$20 and the variable costs are \$14, then the per-unit contribution to fixed costs is \$6.

ANS: T                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Reflective Thinking                      MSC: AP

48. A skimming pricing strategy involves setting the price of a product relatively high and then gradually lowering it.

ANS: T                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

49. Penetration pricing is often used when there are no close competitors and none are expected to enter the market for some time.

ANS: F                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

50. Penetration pricing assumes that a low price will attract new buyers.



ANS: T                      DIF: 1                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

51. A company following a competitive pricing strategy relies heavily on price as a competitive weapon.

ANS: F                      DIF: 2                      REF: Pricing Strategies  
NAT: AACSB Analytic                      MSC: KN

52. Most marketing managers believe that the price-quality relationship holds for a wide variety of prices.

ANS: T                      DIF: 1                      REF: Consumer Perceptions of Prices  
NAT: AACSB Analytic                      MSC: KN

53. Odd pricing is used because retailers believe that consumers favor prices such as \$3.99 or \$249,999.

ANS: T                      DIF: 2                      REF: Consumer Perceptions of Prices  
NAT: AACSB Reflective Thinking                      MSC: AP

54. It is not uncommon that consumers correlate prestige, quality, and high price.

ANS: T                      DIF: 2                      REF: Consumer Perceptions of Prices  
NAT: AACSB Reflective Thinking                      MSC: AP

## Chapter 15—Using Technology to Manage Information

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### MATCHING

*Complete the following using the terms listed.*

- a. information system
  - b. VoIP
  - c. decision support system
  - d. expert system
  - e. application service provider
  - f. virtual private network
  - g. WiFi
  - h. intranet
  - i. computer virus
  - j. local area network
  - k. minicomputer
  - l. utility computing
  - m. operating system
  - n. executive support system
  - o. Trojan horse
  - p. desktop publishing
  - q. enterprise resource planning system
  - r. disaster recovery planning
1. \_\_\_\_\_ is a wireless network that connects various devices and allows them to communicate with one another through radio waves.
  2. A secure connection between two points on the Internet is known as a(n) \_\_\_\_\_.
  3. A company network that links employees via Internet tools, is called a(n) \_\_\_\_\_.
  4. A(n) \_\_\_\_\_ is an outside company that specializes in providing both computers and the application support for managing information systems of business clients.
  5. A(n) \_\_\_\_\_ is a program that secretly attaches itself to other computer programs or files and changes them or destroys data.
  6. A computer program that imitates human thinking is called a(n) \_\_\_\_\_.
  7. A computer network that connects machines within a limited area is called a(n) \_\_\_\_\_.
  8. A(n) \_\_\_\_\_ is an information system that quickly provides relevant data to help people make decisions and choose courses of action.
  9. An intermediate-sized computer is known as a(n) \_\_\_\_\_.
  10. Telephones connected via \_\_\_\_\_ use personal computers with broadband connections in place of a traditional phone jack.
  11. \_\_\_\_\_ enables firms to essentially rent software time from application providers and pay only for their usage of the software.
  12. A(n) \_\_\_\_\_ is an organized method for providing past, present, and projected information on internal operations as well as external intelligence to support decision making.
  13. \_\_\_\_\_ can produce professional-looking documents combining high quality text and graphics.
  14. A(n) \_\_\_\_\_ is a program that claims to do one thing, but in reality does something else, usually malicious.
  15. A(n) \_\_\_\_\_ is software that runs most computer operations.
  16. A system that allows top managers to access a firm's primary databases is called a(n) \_\_\_\_\_.
  17. \_\_\_\_\_ is a set of integrated programs designed to collect, process, and provide information about all business operations.

18. \_\_\_\_\_ is the process of deciding how to prevent system breakdowns and continue operations if computer systems fail.

- |                       |        |  |
|-----------------------|--------|--|
| 1. ANS: G             | DIF: 2 | REF: Computer Networks   |
| NAT: AACSB Technology |        | MSC: KN  |
| 2. ANS: F             | DIF: 2 | REF: Computer Networks   |
| NAT: AACSB Technology |        | MSC: KN  |
| 3. ANS: H             | DIF: 2 | REF: Computer Networks   |
| NAT: AACSB Technology |        | MSC: KN  |
| 4. ANS: E             | DIF: 2 | REF: Information System Trends                                 |
| NAT: AACSB Technology |        | MSC: KN  |
| 5. ANS: I             | DIF: 2 | REF: Security and Ethical Issues Affecting Information Systems |
| NAT: AACSB Technology |        | MSC: KN  |
| 6. ANS: D             | DIF: 2 | REF: Components and Types of Information Systems               |
| NAT: AACSB Technology |        | MSC: KN  |
| 7. ANS: J             | DIF: 2 | REF: Computer Networks   |
| NAT: AACSB Technology |        | MSC: KN  |
| 8. ANS: C             | DIF: 2 | REF: Components and Types of Information Systems               |
| NAT: AACSB Technology |        | MSC: KN  |
| 9. ANS: K             | PTS: 1 | DIF: 2   |
| NAT: AACSB Technology |        | REF: p. 491  |
| 10. ANS: B            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Computer Networks   |
| 11. ANS: L            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Information Trends  |
| 12. ANS: A            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Data, Information, and Information Systems                |
| 13. ANS: P            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Computer Hardware and Software                            |
| 14. ANS: O            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Security and Ethical Issues Affecting Information Systems |
| 15. ANS: M            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Components and Types of Information Systems               |
| 16. ANS: N            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Components and Types of Information Systems               |
| 17. ANS: Q            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Computer Hardware and Software                            |
| 18. ANS: R            | DIF: 2 | MSC: KN  |
| NAT: AACSB Technology |        | REF: Disaster Recovery and Backup                              |

## ESSAY

1. Explain the difference between data and information.

ANS:

Data consists of raw facts and figures that may or may not be relevant to a business decision. Information, on the other hand, is the knowledge gained from processing those facts and figures. While a business may need to gather data about the demographic characteristics of a target market or the specifications of a certain product, the data are useless unless they are transformed into relevant information that can be used to make a competitive decision.

DIF: 2  
Analytic

REF: Data, Information, and Information Systems  
MSC: KN

NAT: AACSB

2. Describe the purpose of a management information system and the role of the chief information officer.

ANS:

A management information system is an organized method for providing past, present, and projected information on internal operations and external intelligence for use in decision making. The chief information officer (CIO) is assigned the responsibility for directing the firm's management information system and other related computer operations.

DIF: 2  
Technology

REF: Data, Information, and Information Systems  
MSC: KN

NAT: AACSB

3. What is a decision support system? How does a decision support system differ from an expert system?

ANS:

A decision support system is an information system that quickly provides relevant data to help people make decisions and choose courses of action. It includes software tools that help decision makers generate the information they need. An expert system, by contrast, is a computer program that imitates human thinking through complicated sets of "if...then" rules. The system applies human knowledge in a specific subject area in order to solve a problem.

DIF: 3  
NAT: AACSB Reflective Thinking

REF: Components and Types of Information Systems  
MSC: AP

4. Explain the difference between hardware and software. Give examples of both.

ANS:

Hardware consists of all the tangible elements of a computer system: input devices, machines that store and process data and perform required calculations, and output devices that present results to information users. Examples of input devices include the keyboard, mouse, and scanner. Storage and processing devices include the CPU and disk drives. Output devices include printers and monitors. Software refers to the sets of instructions that tell the computer hardware what to do. There are two general types of software: operating systems (software that controls the basic workings of the computer system) and applications software (programs that perform specific tasks such as word processing).

DIF: 3  
NAT: AACSB Reflective Thinking | AACSB Technology

REF: Computer Hardware and Software  
MSC: AP

MSC: AP

5. How are computers classified?

ANS:

There are three main classifications of computers: mainframe, minicomputer, and personal computer. Mainframe computers are the largest type of computer system, with the most memory and fastest processing speeds. An especially powerful mainframe computer is called a supercomputer. Minicomputers are an intermediate-size computer system. They are less powerful than mainframe computers, but also less expensive and smaller. Personal computers are divided into three subcategories: desktop, notebook, and handheld.

DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

6. What is enterprise resource planning software? What makes it useful for a business?

ANS:

Enterprise resource planning software is a set of integrated programs designed to collect, process, and provide information about all business operations. These software programs (also called “suites”) help companies run factories, keep track of accounting practices, manage the human resources function, and assist in marketing efforts.

DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

7. List and briefly explain the most widely used business applications of computers.

ANS:

The most widely used business applications of computers include word processing, spreadsheets, desktop publishing, e-mail, and presentation and graphics programs. Word processing is software that uses a computer to type, store, retrieve, edit and print various types of documents. A spreadsheet is a software package that creates the computerized equivalent of an accountant's worksheet, allowing the user to manipulate variables and see the impact of alternative decisions on operating results. Desktop publishing extends word processing capabilities to create sophisticated documents that combine high-quality type and graphics. E-mail allows users both inside and outside an organization to use their computers to communicate rapidly with one another. Presentation and graphics programs allow users to create slide presentations, handouts, and transparency masters for effective reports and proposals.

DIF: 3                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

8. Explain the difference between an intranet and a virtual private network.

ANS:

An intranet is a physical network that links an organization's computers, allowing them to share documents, printers, and other devices. A virtual private network links two or more computers over a secure Internet connection.

DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

9. What are some ways that businesses can protect themselves from computer crimes?

ANS:

Businesses can protect themselves from computer crimes by requiring users to enter passwords, installing firewalls or encryption software, and keeping current on new security methods. Additionally, computer users can protect him or herself by installing one of the commercially available antivirus software programs, and to keep the program constantly updated. View and download attachments from known sources only.

DIF: 3                      REF: Security and Ethical Issues Affecting Information Systems  
NAT: AACSB Technology                      MSC: KN

10. Explain the differences among a virus, a worm, and a Trojan horse.

ANS:

A virus is a program that secretly attaches itself to other programs and changes the host program or destroys data. A worm is a small piece of software that exploits a security hole in a network and duplicates itself. Worms don't require host programs. A Trojan horse is a program that claims to do one thing but in reality does something else, usually something malicious.

DIF: 3                      REF: Security and Ethical Issues Affecting Information Systems  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

11. What is disaster recovery planning?

ANS:

Disaster recovery planning involves deciding how to prevent system failures and continue operations if computer systems fail. It is a critical function of all organizations, and disaster prevention programs can avoid some of the costly problems associated with computer system failures. The most basic precaution is to backup software and data routinely. Another precaution is to establish back-up hardware in a secure location or use online storage services.

DIF: 2                      REF: Disaster Recovery and Backup  
NAT: AACSB Technology                      MSC: KN

## **MULTIPLE CHOICE**

1. Raw facts and figures are \_\_\_\_\_.  
a. data  
b. information  
c. a management information system  
d. the basis for business decision making

ANS: A                      DIF: 1                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

2. Which of the following is considered information rather than data?  
a. Projected population growth in a target market  
b. A measure of the effectiveness of a promotional strategy  
c. Income distribution in a target market  
d. Product sales in various categories

ANS: B                      DIF: 2                      REF: Data, Information, and Information Systems  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Hannah is a television executive whose team conducted demographic research for new programs. Hannah will be expected to write a detailed \_\_\_\_\_ report about the impact of this study and the effect of the network's marketing strategy.
- database
  - information
  - data
  - groupware

ANS: B                      DIF: 2                      REF: Data, Information, and Information Systems  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

4. Which of the following statements best describes the purpose of a management information system?
- Provide management with feedback from sales meetings
  - Assist the human resources department with research on employee benefit costs
  - Provide the accounting department with budget information
  - Provide information on internal operations and external intelligence for use in decision making

ANS: D                      DIF: 2                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

5. The person who directs a firm's management information systems and related computer operations is often called the \_\_\_\_\_.
- financial advisor
  - chief information officer
  - executive information manager
  - chief executive officer

ANS: B                      DIF: 1                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

6. What is an advantage of having an organization's data resources organized into a database?
- Each department can create and maintain its own files.
  - Computer viruses are less of a threat.
  - Computer security can become a lower priority.
  - Updating a database is easier than updating individual files.

ANS: D                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Analytic                      MSC: KN

7. A database can best be described as \_\_\_\_\_.
- a centralized integrated collection of the organization's data resources
  - a loose collection of ideas
  - data that has been converted into information
  - data gathered at random from a variety of sources

ANS: A                      DIF: 1                      REF: Components and Types of Information Systems  
NAT: AACSB Analytic                      MSC: KN

8. One of the largest online databases is owned by \_\_\_\_\_.
- IBM
  - the U.S. Census Bureau
  - the Federal Trade Commission (FTC)
  - Microsoft

ANS: B                      DIF: 2                      REF: Components and Types of Information Systems

NAT: AACSB Analytic

MSC: KN

9. Data accessed online is \_\_\_\_\_ free and businesspeople \_\_\_\_\_ its reliability.
- rarely; don't need to verify
  - rarely; should verify
  - often; don't need to verify
  - often; should verify

ANS: D

DIF: 2

REF: Components and Types of Information Systems

NAT: AACSB Analytic

MSC: KN

10. An information system that provides relevant data to help businesspeople choose the appropriate course of action is called a(n) \_\_\_\_\_.
- decision support system
  - expert system
  - executive information system
  - database

ANS: A

DIF: 1

REF: Components and Types of Information Systems

NAT: AACSB Analytic

MSC: KN

11. Sean is a salesperson and is visiting one of his largest clients. Before the visit, he reviewed the client's past purchases. Sean used the firm's \_\_\_\_\_ system.
- expert
  - enterprise resource planning
  - executive information
  - decision support

ANS: D

DIF: 2

REF: Components and Types of Information Systems

NAT: AACSB Reflective Thinking

MSC: AP

12. William is trying to close a particularly difficult sale. He uses his PDA (personal digital assistant) and a special program to access information within his company's database on pricing. William is using an \_\_\_\_\_.
- expert system
  - enterprise resource planning system
  - executive support system
  - application service provider

ANS: C

DIF: 3

REF: Components and Types of Information Systems

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

13. Megan, a chief executive officer, reviews the internal performance of her company's stock, as well as market trends for the industry. To access this information, Megan uses a(n) \_\_\_\_\_.
- executive support system
  - expert system
  - enterprise planning resource
  - decision support system

ANS: A

DIF: 3

REF: Components and Types of Information Systems

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

14. A computer program that imitates human thinking is a(n) \_\_\_\_\_.
- information interface
  - decision support system



- c. enterprise resource planning system
- d. expert system

ANS: D                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

15. Hans works in the mortgage loan department of a bank. He enters information on credit applications into the bank's computer system. The system has a program that evaluates the loan application and gives it a score. Hans is using a(n) \_\_\_\_\_.
- a. information interface
  - b. expert system
  - c. enterprise resource planning system
  - d. decision support system

ANS: B                      DIF: 3                      REF: Components and Types of Information Systems  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

16. An expert system would most likely be used to \_\_\_\_\_.
- a. retrieve sales data
  - b. determine the status of a customer's order
  - c. determine the optimal layout of a plant
  - d. access relevant data from the company's database

ANS: C                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

17. On Realtor.com, homebuyers enter information regarding their preferred home location, price, and features. Using an \_\_\_\_\_, the Web site will automatically display real estate properties that match the homebuyer's criteria.
- a. executive information system
  - b. encryption
  - c. application service provider
  - d. expert system

ANS: D                      DIF: 3                      REF: Components and Types of Information Systems  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

18. \_\_\_\_\_ tie geographic regions together using long-distance telephone lines or satellite transmissions.
- a. Local area networks
  - b. Executive information systems
  - c. Databases
  - d. Wide area networks

ANS: D                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

19. All Wal-Mart stores have satellite dishes that link stores together with the company's headquarters. Wal-Mart is using a(n) \_\_\_\_\_.
- a. local area network
  - b. expert system
  - c. wide area network
  - d. enterprise resource system

ANS: C                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

20. A new wireless standard called \_\_\_\_\_ has the potential to bring high-speed Internet access to rural areas where traditional forms of broadband access are too expensive or impractical.
- a. VPN
  - b. Wi-Max
  - c. VoIP
  - d. Wi-Fi

ANS: B                      DIF: 3                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

21. An outside supplier used to provide computer and application support for managing an information system is known as \_\_\_\_\_.
- a. an application maintenance provider
  - b. an application service provider
  - c. on-demand computing
  - d. utility computing

ANS: B                      DIF: 2                      REF: Information System Trends  
NAT: AACSB Technology                      MSC: KN

22. All of the following devices are computer hardware EXCEPT a \_\_\_\_\_.
- a. fax machine
  - b. monitor
  - c. mouse
  - d. printer driver

ANS: D                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

23. Which of the following is a storage device?
- a. Flash memory card
  - b. Modem
  - c. Monitor
  - d. Scanner

ANS: A                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

24. The largest type of computer system with the most extensive storage capacity and the fastest processing speeds is a \_\_\_\_\_.
- a. midrange system
  - b. mainframe computer
  - c. hand-held device
  - d. personal computer

ANS: B                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

25. Which of the following is the most recent development in notebook computers?
- a. Netbooks
  - b. Minicomputers
  - c. Tablet PCs
  - d. PDAs

ANS: A                      DIF: 1                      REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

26. Angelo purchases a new game for his computer. He will load the program onto the computer's hard drive. Angelo is buying \_\_\_\_\_.
- a. application software
  - b. an operating system
  - c. a warranty
  - d. an output device

ANS: A

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

27. A program that performs specific tasks that the user wants to carry out is called \_\_\_\_\_.
- a. software
  - b. the operating system
  - c. a management information system
  - d. application software

ANS: D

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

28. Which of the following is an application program?
- a. Microsoft Excel
  - b. Microsoft Windows
  - c. UNIX
  - d. Java

ANS: A

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

29. Which of the following is an enterprise resource planning system?
- a. Microsoft Outlook
  - b. Lotus Notes
  - c. Microsoft Office
  - d. Adobe Acrobat

ANS: C

DIF: 1

REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

30. Word processing programs can do all of the following EXCEPT \_\_\_\_\_.
- a. translate documents into hypertext markup language (HTML)
  - b. compute calculations
  - c. edit documents
  - d. add graphs and pictures to documents

ANS: B

DIF: 1

REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

31. Brian is sitting at his computer preparing a new sales brochure. The brochure combines high-quality type, graphics, and photographs. What type of software is Brian likely using to create the brochure?
- a. Word processing program
  - b. Desktop publishing program
  - c. Presentation graphics program
  - d. Spreadsheet program

ANS: B

DIF: 2

REF: Computer Hardware and Software

32. Electronic spreadsheets \_\_\_\_\_.
- a. are the computerized equivalent of an accountant's worksheet
  - b. are very difficult to use
  - c. are a special software used to create graphics
  - d. can replace managerial judgment in decision-making

ANS: A

DIF: 1

REF: Computer Hardware and Software

NAT: AACSB Technology

MSC: KN

33. Carmen is sitting at her computer analyzing the financial impact on an increase in her company's sales growth rate. Carmen is probably using a \_\_\_\_\_ program.
- a. word processing
  - b. desktop publishing
  - c. spreadsheet
  - d. presentation

ANS: C

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

34. Kyle is putting together a presentation for senior management analyzing a potential new market. He is using his computer to create charts or graphs that he will then show as slides. Which of the following software programs is Kyle most likely using to create his presentation?
- a. Microsoft Word
  - b. Lotus 1-2-3
  - c. Adobe Acrobat
  - d. Microsoft PowerPoint

ANS: D

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

35. Chloe would like her company to fund a worthwhile project and has accumulated valuable statistics regarding market shares, territories, and projected sales. In order to achieve maximum impact, Chloe should communicate her information via \_\_\_\_\_.
- a. desktop publishing
  - b. production software
  - c. staging software
  - d. presentation software

ANS: D

DIF: 2

REF: Computer Hardware and Software

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

36. Which of the following is an example of multimedia computing?
- a. Using Microsoft PowerPoint to develop charts
  - b. Combining text with sound and video on a Web page
  - c. Using Microsoft Word to write a term paper
  - d. Using Lotus 1-2-3 to prepare a monthly budget

ANS: B

DIF: 1

REF: Computer Hardware and Software

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

37. Electronic devices such as BlackBerry and T-Mobile's SideKick II are examples of \_\_\_\_\_, which integrate two or more types of media, including cell phone and email capabilities.
- a. groupware

- b. multimedia computing
- c. minicomputers
- d. virtual private networks

ANS: B                      DIF: 2                      REF: Computer Hardware and Software  
 NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

38. Mari is on a business trip. From her hotel, she uses her computer to access her company's network, checking her e-mail and calendar. Mari's company has a(n) \_\_\_\_\_.
- a. Internet
  - b. virtual private network
  - c. intranet
  - d. extranet

ANS: C                      DIF: 1                      REF: Computer Networks  
 NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: KN

39. Caleb's company has installed a system to make data transmission secure. Therefore, he can use the Internet to send and receive sensitive data. Caleb's company has installed a(n) \_\_\_\_\_.
- a. intranet
  - b. virtual private network
  - c. extranet
  - d. wide area network

ANS: B                      DIF: 2                      REF: Computer Networks  
 NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

40. Diego purchased a company and discovered that his employees were using different operating systems. Instead of spending considerable time and expense getting everyone on the same system, Diego established a(n) \_\_\_\_\_ to create company bulletin boards, manage documents, and conduct online conferencing.
- a. extranet
  - b. intranet
  - c. virtual private network
  - d. Internet

ANS: B                      DIF: 2                      REF: Computer Networks  
 NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

41. Software that encodes data, making it difficult for unauthorized users to view, is called \_\_\_\_\_.
- a. a firewall
  - b. encryption software
  - c. a virus
  - d. a password

ANS: B                      DIF: 1                      REF: Security and Ethical Issues Affecting Information Systems  
 NAT: AACSB Technology                      MSC: KN

42. All of the following are advantages of VoIP EXCEPT \_\_\_\_\_.
- a. lower cost
  - b. additional features
  - c. increased flexibility
  - d. increased security

ANS: D                      DIF: 2                      REF: Computer Networks

NAT: AACSB Technology

MSC: KN

43. A program that attaches itself to other programs and changes programs or destroys data is a(n) \_\_\_\_\_.
- a. computer virus
  - b. purge program
  - c. inoculation program
  - d. immunity deficiency program

ANS: A

DIF: 2

REF: Security and Ethical Issues Affecting Information Systems

NAT: AACSB Technology

MSC: KN

44. A significant problem with e-mail is \_\_\_\_\_.
- a. speed of transmission
  - b. virus vulnerability
  - c. efficiency
  - d. cost

ANS: B

DIF: 1

REF: Security and Ethical Issues Affecting Information Systems

NAT: AACSB Technology

MSC: KN

45. Jennifer belongs to several online card clubs. When she downloaded a recommended bridge game, she unknowingly received a \_\_\_\_\_, which ultimately damaged the hard drive on her computer.
- a. worm
  - b. software application
  - c. Trojan horse
  - d. firewall

ANS: C

DIF: 2

REF: Security and Ethical Issues Affecting Information Systems

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

46. Mario downloaded some company information into a spreadsheet so that he could work on it at home. When he returned to work, he inserted his memory card into his company computer. Within minutes, all of his hard drive files were corrupted. The most likely cause was a(n) \_\_\_\_\_.
- a. computer virus
  - b. malfunctioning computer
  - c. bad operating system
  - d. intranet failure

ANS: A

DIF: 2

REF: Security and Ethical Issues Affecting Information Systems

NAT: AACSB Reflective Thinking | AACSB Technology

MSC: AP

47. Deciding how to prevent system failures along with the ability to continue operating if computer systems fail is called \_\_\_\_\_.
- a. disaster recovery planning
  - b. information systems management
  - c. advanced computer security
  - d. virus protection

ANS: A

DIF: 1

REF: Disaster Recovery and Backup

NAT: AACSB Technology

MSC: KN

48. All of the following are reasonable responses to potential computer problems EXCEPT \_\_\_\_\_.  
a. routinely backing up software and data  
b. installing extra hardware in a secure location  
c. limiting computer access to only a handful of senior managers  
d. using online storage services

ANS: C                      DIF: 2                      REF: Disaster Recovery and Backup  
NAT: AACSB Technology                      MSC: KN

49. Courtney's office in south Florida was destroyed by a hurricane last year, and she lost numerous company documents. After relocating, Courtney took no chances and implemented \_\_\_\_\_, in which she backed up her data in a secure online storage service.  
a. enterprise resource planning  
b. firewall  
c. encryption  
d. disaster recovery planning

ANS: D                      DIF: 2                      REF: Disaster Recovery and Backup  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

### TRUE/FALSE

1. Data alone are of limited value to a company.

ANS: T                      DIF: 1                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

2. Sales figures are an example of information.

ANS: F                      DIF: 2                      REF: Data, Information, and Information Systems  
NAT: AACSB Reflective Thinking                      MSC: AP

3. The main purpose of management information systems is to help managers make better decisions.

ANS: T                      DIF: 1                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

4. Information is the result of processed data.

ANS: T                      DIF: 1                      REF: Data, Information, and Information Systems  
NAT: AACSB Analytic                      MSC: KN

5. The heart of a management information system is the database.

ANS: T                      DIF: 1                      REF: Components and Types of Information Systems  
NAT: AACSB Analytic                      MSC: KN

6. Information overload is less of a problem today because of improved technology.

ANS: F                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: AP

7. It is more difficult to acquire data than it is to turn the data into useful information.

ANS: F                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Analytic                      MSC: KN

8. Decision support systems consist totally of software.

ANS: F                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

9. Executive support systems allow senior managers to access the firm's primary databases.

ANS: T                      DIF: 1                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

10. An information interface is a software program between the user and the underlying information system.

ANS: T                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

11. An expert system is a computer program that imitates human thinking.

ANS: T                      DIF: 1                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

12. A familiar example of wide area networks is long-distance telephone service.

ANS: T                      DIF: 1                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

13. Credit card applications are often evaluated using expert systems.

ANS: T                      DIF: 2                      REF: Components and Types of Information Systems  
NAT: AACSB Technology                      MSC: KN

14. Most wide area networks are clusters of local area networks.

ANS: F                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

15. Salespeople often use handheld devices to access expert systems that provide real-time information on the status of orders.

ANS: F                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Reflective Thinking | AACSB Technology                      MSC: AP

16. On-demand computing is particularly useful for companies that experience seasonal spikes in customer usage of their applications.

ANS: T                      DIF: 2                      REF: Information System Trends  
NAT: AACSB Technology                      MSC: KN

17. An especially powerful minicomputer is called a supercomputer.



ANS: F                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

18. Personal computers have more storage capacity and are faster today than mainframe computers.

ANS: F                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

19. Even most handheld devices have operating systems.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

20. An estimated two-thirds of American households own at least one personal computer.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Analytic                      MSC: KN

21. Sales of notebook computers have exceeded sales of desktop computers for the first time.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Analytic                      MSC: KN

22. A tablet PC is a type of handheld device.

ANS: F                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

23. A smart phone is essentially the combination of a cell phone and a PDA.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

24. The Linux operating system runs most of today's handheld devices.

ANS: F                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

25. The software that controls the basic workings of a computer system is the application software.

ANS: F                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

26. Adobe Acrobat is an example of an application program.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

27. Computers will soon replace face-to-face interactions, phone calls, and meetings.

ANS: F                      PTS: 1                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

28. A true “paperless” office may never become a reality.

ANS: T                      DIF: 2                      REF: Disaster Recovery and Backup  
NAT: AACSB Technology                      MSC: KN

29. Microsoft Publisher is a word processing program.

ANS: F                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

30. Yahoo! Messenger and Windows Messenger are both email messaging programs.

ANS: F                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

31. E-mail works best for short, unemotional messages.

ANS: T                      DIF: 1                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

32. Presentation software can be used to create overhead transparencies and handouts.

ANS: T                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

33. Multimedia computing refers to the use of pictures or graphs in documents.

ANS: F                      DIF: 2                      REF: Computer Hardware and Software  
NAT: AACSB Technology                      MSC: KN

34. An intranet links a company to its suppliers and customers.

ANS: F                      DIF: 1                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

35. A firewall scrambles data, making it difficult for unauthorized users to view the data.

ANS: F                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

36. An intranet can link only those computers running on the same operating system.

ANS: F                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

37. A virtual private network provides secure communication connections between two points on the Internet.

ANS: T                      DIF: 1                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

38. Virtual private networks are more expensive to install than wide area networks.

ANS: F                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

39. With VoIPs, if your broadband connection goes out, so will your phone service.

ANS: T                      DIF: 2                      REF: Computer Networks  
NAT: AACSB Technology                      MSC: KN

40. These days, computer crime rarely includes the theft of equipment.

ANS: F                      DIF: 1                      REF: Security and Ethical Issues Affecting Information  
Systems  
NAT: AACSB Technology                      MSC: KN

41. A virus can remain dormant for a period of time on a computer.

ANS: T                      DIF: 1                      REF: Security and Ethical Issues Affecting Information  
Systems  
NAT: AACSB Technology                      MSC: KN

42. As viruses become more complex, the technology to fight them has lagged behind.

ANS: F                      DIF: 1                      REF: Security and Ethical Issues Affecting Information  
Systems  
NAT: AACSB Technology                      MSC: KN

43. Unlike viruses, worms don't need host programs to damage computer systems.

ANS: T                      DIF: 2                      REF: Security and Ethical Issues Affecting Information  
Systems  
NAT: AACSB Technology                      MSC: KN

44. Organizations need to be prepared with backup plans so they can continue operating, even if their computer systems fail.

ANS: T                      DIF: 1                      REF: Disaster Recovery and Backup  
NAT: AACSB Technology                      MSC: KN

45. Software "glitches" can be just as destructive to computers as physical damage.

ANS: T                      DIF: 1                      REF: Disaster Recovery and Backup  
NAT: AACSB Technology                      MSC: KN

## Chapter 16—Understanding Accounting and Financial Statements

### MATCHING

*Complete the following using the terms listed.*

- a. certified public accountant
  - b. accounting process
  - c. asset
  - d. liability
  - e. owners' equity
  - f. basic accounting equation
  - g. balance sheet
  - h. income statement
  - i. statement of cash flows
  - j. accrual accounting
  - k. public accountant
  - l. management accountant
  - m. GAAP
  - n. FASB
  - o. profitability ratio
  - p. International Accounting Standards Committee
  - q. leverage ratio
  - r. budget
1. The basic relationship that states assets equal liabilities plus owners' equity is called the \_\_\_\_\_.
  2. The \_\_\_\_\_ is a statement of a firm's financial position on a particular date.
  3. A financial record of a company's revenues, expenses, and profits over a period of time is called the \_\_\_\_\_.
  4. \_\_\_\_\_ represents the owners' initial investment in the business plus profits that were not paid out to owners over time in the form of cash dividends.
  5. A claim against a firm's assets by a creditor is a(n) \_\_\_\_\_.
  6. The \_\_\_\_\_ provides investors and creditors with relevant information about a firm's cash receipts and cash payments for its operations, investments, and financing during an accounting period.
  7. The accounting method that records revenues and expenses when they occur is called \_\_\_\_\_.
  8. A(n) \_\_\_\_\_ is anything of value owned or leased by a business.
  9. The procedure by which accountants convert data about individual transactions to financial statements is called the \_\_\_\_\_.
  10. A(n) \_\_\_\_\_ demonstrates his or her accounting knowledge by meeting state requirements for education and experience, as well as successfully completing a number of rigorous tests in accounting theory and practice, auditing, law, and taxes.
  11. A(n) \_\_\_\_\_ provides accounting services to individuals and businesses for a fee.
  12. A(n) \_\_\_\_\_ is employed by a business other than a public accounting firm.
  13. Financial statements are prepared according to \_\_\_\_\_, whose principles encompass the conventions, rules, and procedures for determining acceptable accounting practices at a particular time.
  14. \_\_\_\_\_ is primarily responsible for evaluating, setting, or modifying the generally accepted accounting principles.
  15. \_\_\_\_\_ measures the extent to which a firm relies on debt financing.
  16. An organization's overall financial performance is measured by its \_\_\_\_\_, which evaluates the ability to generate revenues in excess of operating costs and other expenses.
  17. A(n) \_\_\_\_\_ is a planning and controlling tool that reflects the firm's expected sales revenues, operating expenses, and cash receipts and outlays.

18. The \_\_\_\_\_ was established to promote worldwide consistency in financial reporting practices.

- |                     |        |  |
|---------------------|--------|--|
| 1. ANS: F           | DIF: 2 | REF: The Accounting Cycle                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 2. ANS: G           | DIF: 2 | REF: Financial Statements                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 3. ANS: H           | DIF: 2 | REF: Financial Statements                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 4. ANS: E           | DIF: 2 | REF: Financial Statements                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 5. ANS: D           | DIF: 2 | REF: The Accounting Cycle                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 6. ANS: I           | DIF: 2 | REF: Financial Statements                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 7. ANS: J           | DIF: 2 | REF: Financial Statements                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 8. ANS: C           | DIF: 2 | REF: The Accounting Cycle                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 9. ANS: B           | DIF: 2 | REF: The Accounting Cycle                    |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 10. ANS: A          | DIF: 2 | REF: Accounting Professionals                |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 11. ANS: K          | DIF: 2 | REF: Accounting Professionals                |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 12. ANS: L          | DIF: 2 | REF: Accounting Professionals                |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 13. ANS: M          | DIF: 2 | REF: The Foundation of the Accounting System |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 14. ANS: N          | DIF: 2 | REF: The Foundation of the Accounting System |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 15. ANS: Q          | DIF: 2 | REF: Financial Ratio Analysis                |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 16. ANS: O          | DIF: 2 | REF: Financial Ratio Analysis                |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 17. ANS: R          | DIF: 2 | REF: Budgeting                               |
| NAT: AACSB Analytic |        | MSC: KN                                      |
| 18. ANS: P          | DIF: 2 | REF: International Accounting                |
| NAT: AACSB Analytic |        | MSC: KN                                      |

## ESSAY

1. What is accounting? What tasks do accountants perform?

ANS:

Accounting is the process of measuring, interpreting, and communicating financial information to enable people inside and outside the organization to make informed decisions. Accountants gather, record, report, and interpret financial information that describes the status and operation of an organization and aids in decision making.

DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

2. What is the relationship between accounting and business environments?

ANS:

Accountants play fundamental roles in not only business but also other aspects of society. Their work influences various business environments by contributing important information to help managers deal with competitive and economic situations. Less obvious contributions include helping others to understand, predict, and react to the technological, regulatory, social, and cultural environments.

DIF: 2                      REF: Users of Accounting Information      NAT: AACSB Reflective Thinking  
MSC: AP

3. All organizations perform three basic business activities. What are these activities?

ANS:

All businesses perform, in natural progression, financing, investing, and operating activities. Financing activities involve providing funds to start and expand the business. Investing activities provide valuable assets to run a business. Operating activities focus on the sale of goods and services, but also consider expense control as an important element of sound financial management.

DIF: 2                      REF: Users of Accounting Information      NAT: AACSB Analytic  
MSC: KN

4. Explain the differences between public accountants and management accountants.

ANS:

A public accountant is an independent professional who provides accounting services to businesses and individuals for a fee. These services include the preparation of tax statements, examinations of financial statements, management consulting, and the design of accounting systems. Management accountants are employed by businesses other than public accounting firms. They are responsible for collecting and recording financial transactions, preparing financial statements, and interpreting financial statements.

DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

5. Define GAAP and its purpose.

ANS:

GAAP stands for generally accepted accounting principals. The purpose of GAAP is to ensure reliable, consistent, and unbiased information to decision makers. GAAP encompasses the conventions, rules, and procedures for determining acceptable accounting practices at a particular time.

DIF: 2                      REF: The Foundation of the Accounting System      NAT: AACSB Analytic  
MSC: KN

6. Explain the basic accounting equation.

ANS:

The basic accounting equation states that assets equal liabilities plus owners' equity. Assets are anything of value owned by the firm, and include tangible as well intangible assets. Liabilities and owners' equity are claims against the firm's assets. A liability is anything owed to creditors, while owners' equity represents the owners' initial investment in the business plus retained earnings that were not paid over time in dividends. The basic accounting equation states that an increase in assets must be accompanied by an increase in either liabilities or owners' equity. Likewise, a decrease in assets must be accompanied by a decrease in either liabilities or owners' equity.

DIF: 3                      REF: The Accounting Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

7. What is the purpose of the balance sheet? How is it organized?

ANS:

The balance sheet shows a firm's financial position at a particular date. It is similar to a photograph of what the firm owns (its assets), what it owes (its liabilities), and its owners' equity. The balance sheet follows the accounting equation. Assets are reported on the left side, while liabilities and owners' equity are reported on the right side. Assets are listed in descending order of liquidity -- their convertibility into cash. Liabilities and owners' equity indicate the sources of the firm's assets and are listed in the order in which they are due.

DIF: 2                      REF: Financial Statements   NAT:                      AACSB Analytic  
MSC: KN

8. What is accrual accounting? How does depreciation affect net income and cash flow?

ANS:

Accrual accounting recognizes revenues and costs when they occur, not when actual cash changes hands. (If a company buys goods from a supplier in August, for example, but doesn't pay for the goods until September, the expense is still recorded in August.) Because of the widespread use of accrual accounting, there can be differences between what the firm reports as sales, expenses, and profits, and the amount of cash that actually flows in and out of the business during a period of time. Depreciation is the systematic reduction in the value of certain company assets, such as machinery and buildings over time. While it is reported as an expense on the firm's income statement, depreciation is not an actual cash expense. Therefore, a firm's after-tax cash flow for a specific period of time will actually exceed what it reports as net income for the same period.

DIF: 3                      REF: Financial Statements   NAT:                      AACSB Reflective Thinking  
MSC: AP

9. Identify and briefly describe the four categories of financial ratios.

ANS:

The four categories of ratios are liquidity ratios, profitability ratios, leverage ratios, and activity ratios. Liquidity ratios measure the firm's abilities to meet its short-term obligations as they come due. Profitability ratios measure the overall performance of the firm by comparing earnings to sales, assets, or the owner's investment. Leverage ratios give an indication of the extent to which a firm is relying on borrowed money. Finally, activity ratios measure how effectively the firm uses its inventory and other assets.

DIF: 2                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

10. Describe the role of budgets in a business.





NAT: AACSB Reflective Thinking

MSC: AP

4. Olga owns a business and is reviewing her company's current financial statements. As a user of accounting information, Olga is most interested in using this information to \_\_\_\_\_.
- evaluate credit risk
  - approve new issues of stocks and bonds
  - evaluate tax liabilities
  - plan and control

ANS: D

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Reflective Thinking

MSC: AP

5. The natural progression of a business begins with \_\_\_\_\_.
- financing
  - investing
  - operating
  - selling

ANS: A

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Analytic

MSC: KN

6. \_\_\_\_\_ activities provide the necessary funds to start a business and to expand it after it begins operations.
- Investing
  - Financing
  - Operating
  - Selling

ANS: B

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Analytic

MSC: KN

7. \_\_\_\_\_ activities focus on selling goods and services.
- Investing
  - Financing
  - Operating
  - Marketing

ANS: C

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Analytic

MSC: KN

8. \_\_\_\_\_ activities focus on providing valuable assets to a business.
- Investing
  - Marketing
  - Selling
  - Operating

ANS: A

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Analytic

MSC: KN

9. Sri manages the sales force for his company. He is engaged in the \_\_\_\_\_ activity.
- accounting
  - operating
  - financing
  - investing

ANS: B

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Reflective Thinking

MSC: AP

10. Julie is evaluating which state her company will expand into next. She is engaged in the \_\_\_\_\_ activity.
- a. accounting
  - b. operating
  - c. investing
  - d. marketing

ANS: C

DIF: 2

REF: Users of Accounting Information

NAT: AACSB Reflective Thinking

MSC: AP

11. Public accountants typically perform all of the following tasks for a business client EXCEPT \_\_\_\_\_.
- a. developing the firm's marketing strategy
  - b. reviewing a firm's financial statements
  - c. tax planning
  - d. management consulting

ANS: A

DIF: 1

REF: Accounting Professionals

NAT: AACSB Reflective Thinking

MSC: KN

12. Emilio is not an employee of the Modesto Corporation, but was hired as a management consultant to provide unbiased advice about Modesto's financial condition. Emilio is a(n) \_\_\_\_\_.
- a. management accountant
  - b. government accountant
  - c. public accountant
  - d. internal auditor

ANS: C

DIF: 2

REF: Accounting Professionals

NAT: AACSB Reflective Thinking

MSC: AP

13. Raphael works as a tax accountant at a mid-sized manufacturing company. Raphael would be considered a \_\_\_\_\_.
- a. management consultant
  - b. management accountant
  - c. public accountant
  - d. government accountant

ANS: B

DIF: 2

REF: Accounting Professionals

NAT: AACSB Reflective Thinking

MSC: AP

14. Samantha works for a mid-sized manufacturing company. Her responsibility is to examine the firm's financial practices to ensure that records include accurate data and that the firm's operations are in compliance with federal, state, and local laws and regulations. Samantha is a \_\_\_\_\_.
- a. government accountant
  - b. cost accountant
  - c. certified internal auditor
  - d. tax accountant

ANS: C

DIF: 3

REF: Accounting Professionals

NAT: AACSB Reflective Thinking

MSC: AP

15. Faye works as an accountant for the city of Portland. Faye can best be described as a \_\_\_\_\_.
- a. management accountant

- b. government accountant
- c. public accountant
- d. cost accountant

ANS: B                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Reflective Thinking                      MSC: AP

16. What is the primary role of a government accountant?
- a. Determining how efficiently the organization accomplishes its objectives
  - b. Determining how much money the organization is taking in
  - c. Determining the cost of goods and services provided by the organization
  - d. Preparing the organization's tax return

ANS: A                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

17. The procedure used by accountants to convert transactions into financial statements is called \_\_\_\_\_.
- a. the accounting process
  - b. processing financial information
  - c. recording financial information
  - d. summarizing financial information

ANS: A                      DIF: 1                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

18. The rules followed by accountants when preparing financial statements are referred to as \_\_\_\_\_.
- a. Generally Accepted Accounting Practices (GAAP)
  - b. Financial Accounting Standards Board (FASB)
  - c. the accounting process
  - d. the accounting system

ANS: A                      DIF: 1                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

19. The \_\_\_\_\_ was created by the Sarbanes-Oxley Act of 2002.
- a. Public Company Accounting Oversight Board
  - b. Securities & Exchange Commission
  - c. GAAP
  - d. FASB

ANS: A                      DIF: 2                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

20. Who appoints the members of the Public Company Accounting Oversight Board?
- a. FASB
  - b. American Association of CPAs
  - c. Securities and Exchange Commission
  - d. Federal Trade Commission

ANS: C                      DIF: 2                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

21. All of the following are assets EXCEPT \_\_\_\_\_.
- a. inventory
  - b. bank loans

- c. patents
- d. cash

ANS: B                      DIF: 1                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

22. All of the following are tangible assets EXCEPT \_\_\_\_\_.
- a. cash
  - b. inventory
  - c. building
  - d. patents

ANS: D                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

23. Which of the following represents the basic accounting equation?
- a. Assets + Liabilities = Owners' Equity
  - b. Liabilities = Assets + Owners' Equity
  - c. Assets = Liabilities + Owners' Equity
  - d. Owners' Equity - Liabilities = Assets

ANS: C                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

24. Milwaukee Fabrication has \$50 million in assets and \$30 million in owners' equity. How much does the firm have in liabilities?
- a. \$20 million
  - b. \$30 million
  - c. \$50 million
  - d. \$80 million

ANS: A                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

25. All of the following are liabilities EXCEPT \_\_\_\_\_.
- a. accounts payable
  - b. accumulated profits not paid in dividends
  - c. bank loans
  - d. wages payable

ANS: B                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

26. Makayla is a corporate CPA working on a new budget. When she lists the company's liabilities, which of the following will she include?
- a. Employees' wages and salaries
  - b. Owners' equity
  - c. Marketable securities
  - d. Computer software

ANS: A                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Camden Products buys a \$500,000 machine by taking out a bank loan. The company's assets will \_\_\_\_\_ by \$500,000 while its liabilities will \_\_\_\_\_ by \$500,000.
- a. rise; fall

- b. fall; rise
- c. rise; rise
- d. fall; fall

ANS: C                      DIF: 3                      REF: The Accounting Cycle  
 NAT: AACSB Reflective Thinking                      MSC: AP

28. Which of the following financial statements shows a firm's financial position at a particular date?
- a. Balance sheet
  - b. Income statement
  - c. Statement of cash flows
  - d. Statement of changes in retained earnings

ANS: A                      DIF: 1                      REF: Financial Statements  
 NAT: AACSB Analytic                      MSC: KN

29. A(n) \_\_\_\_\_ is a financial statement that is directly based on the accounting equation.
- a. income statement
  - b. balance sheet
  - c. statement of cash flows
  - d. statement of changes in retained earnings

ANS: B                      DIF: 1                      REF: Financial Statements  
 NAT: AACSB Analytic                      MSC: KN

30. Which of the following assets would be listed first on the assets side of a balance sheet?
- a. Fixed assets
  - b. Goodwill
  - c. Accounts receivable
  - d. Inventory

ANS: C                      DIF: 2                      REF: Financial Statements  
 NAT: AACSB Analytic                      MSC: KN

31. Jackson, chief financial officer for a company, is interested in a summary of all the costs related to producing revenues for the most recent quarter. He can best find this information by consulting the \_\_\_\_\_ section of the \_\_\_\_\_.
- a. current asset; balance sheet
  - b. operating; cash flow statement
  - c. expense; income statement
  - d. current liability; balance sheet

ANS: C                      DIF: 2                      REF: Financial Statements  
 NAT: AACSB Reflective Thinking                      MSC: AP

32. Kate is the Executive Director of a local food bank and is assessing the financial situation of her not-for-profit organization. Kate uses a(n) \_\_\_\_\_ to determine whether revenues from contributions and other sources will cover operating costs.
- a. income statement
  - b. statement of cash flows
  - c. balance sheet
  - d. accrual accounting

ANS: A                      DIF: 2                      REF: Financial Statements  
 NAT: AACSB Reflective Thinking                      MSC: AP

33. Expenses that have been incurred (such as wages) but have yet to be paid, are reported on the balance sheet as \_\_\_\_\_.
- a. accounts payable
  - b. accounts receivable
  - c. accruals
  - d. notes payable

ANS: C                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

34. The Ming Company sells \$1,000 worth of goods on July 25 on credit. The customer sends the company a check on August 15. The customer receives the goods on September 1. Assuming the company uses accrual accounting, the sale will be recorded in \_\_\_\_\_.
- a. August
  - b. July
  - c. September
  - d. either July, August, or September

ANS: B                      DIF: 3                      REF: Financial Statements  
NAT: AACSB Reflective Thinking                      MSC: AP

35. Jenna asked her accountant to prepare a summary of the company's "bottom line." What specific information is Jenna interested in?
- a. The company's financial position for that week
  - b. Net income after taxes
  - c. Comparison of assets and liabilities
  - d. Statement of owners' equity

ANS: B                      DIF: 3                      REF: Financial Statements  
NAT: AACSB Reflective Thinking                      MSC: AP

36. Which of the following is a non-cash expense?
- a. Depreciation
  - b. Cost of goods sold
  - c. Income taxes
  - d. Operating costs

ANS: A                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

37. Kwane wants to assess his firm's ability to meet its short-term obligations. Which of the following ratios are the most relevant?
- a. Profitability ratios
  - b. Liquidity ratios
  - c. Debt ratios
  - d. Activity ratios

ANS: B                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Reflective Thinking                      MSC: AP

38. Which of the following current assets is NOT included when calculating the acid-test ratio?
- a. Cash
  - b. Marketable securities
  - c. Inventory
  - d. Accounts receivable

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Financial Ratio Analysis  
MSC: KN

39. If a firm has a current ratio of 2.00, it means that for every \$2 in \_\_\_\_\_ it has \$1 in \_\_\_\_\_.  
a. total assets; total liabilities  
b. total assets; current liabilities  
c. current assets; current liabilities  
d. current assets; total liabilities

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Financial Ratio Analysis  
MSC: KN

40. Using the following balance sheet information, find the firm's acid-test ratio.

Cash and marketable securities	\$15 million
Accounts receivable	\$10 million
Inventory	\$25 million
Current liabilities	\$25 million

- a. 0.60  
b. 1.00  
c. 1.40  
d. 2.00

ANS: B                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Financial Ratio Analysis  
MSC: AP

41. If a company has an acid test ratio of 1.00, \$5 million in inventory, and \$10 million in current liabilities, what are its total current assets?  
a. \$5 million  
b. \$10 million  
c. \$15 million  
d. \$20 million

ANS: C                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Financial Ratio Analysis  
MSC: AP

42. Last year, a firm had a current ratio of 1.50 and an acid-test ratio of 0.75. This year the firm's current ratio is 2.00 and its acid-test ratio is 1.00. This firm's \_\_\_\_\_ has \_\_\_\_\_.  
a. liquidity; improved  
b. liquidity; deteriorated  
c. profitability; improved  
d. profitability; deteriorated

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Financial Ratio Analysis  
MSC: AP

43. An activity turnover ratio of 2.00 means that for every \$1 in assets, the firm generates \_\_\_\_\_ in sales.  
a. \$2.00  
b. \$2.50  
c. \$3.00  
d. \$0.50

ANS: A                      DIF: 3

REF: Financial Ratio Analysis

NAT: AACSB Analytic

MSC: KN

44. All of the following are profitability ratios EXCEPT \_\_\_\_\_.
- a. return on equity
  - b. inventory turnover
  - c. return on assets
  - d. gross profit margin

ANS: B

DIF: 1

REF: Financial Ratio Analysis

NAT: AACSB Analytic

MSC: KN

45. \_\_\_\_\_ ratios are designed to indicate how successful a firm is in terms of its earnings as compared with its assets or owners' equity.
- a. Profitability
  - b. Liquidity
  - c. Activity
  - d. Debt

ANS: A

DIF: 1

REF: Financial Ratio Analysis

NAT: AACSB Analytic

MSC: KN

46. A firm has total assets of \$50 million and owner's equity of \$35 million. What is the firm's leverage ratio?
- a. 25 percent
  - b. 30 percent
  - c. 50 percent
  - d. 70 percent

ANS: B

DIF: 2

REF: Financial Ratio Analysis

NAT: AACSB Reflective Thinking

MSC: AP

47. If Topeka Enterprises has a leverage ratio of 40 percent, it means that for every \$1 in \_\_\_\_\_, the firm has 40 cents in \_\_\_\_\_.
- a. owners' equity; liabilities
  - b. owners' equity; assets
  - c. assets; owners' equity
  - d. assets; liabilities

ANS: D

DIF: 3

REF: Financial Ratio Analysis

NAT: AACSB Reflective Thinking

MSC: AP

48. Daniel wishes to create a financial blueprint for a future period that reflects such items as expected sales revenues, operating expenses, and cash receipts and disbursements. Daniel wants to create a(n) \_\_\_\_\_.
- a. sales forecast
  - b. statement of cash flows
  - c. budget
  - d. income statement

ANS: C

DIF: 1

REF: Budgeting

NAT: AACSB Reflective Thinking

MSC: AP

49. Which of the following statements is correct?
- a. Budgets serve as a planning and control tool.
  - b. Budgets are limited to projecting cash inflows and outflows.



- c. GAAP standards are used in budget development.
- d. Budgets serve as the standard by which estimated performance is compared.

ANS: A                      DIF: 1                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

50. Cash budgets are usually prepared \_\_\_\_\_.
- a. yearly
  - b. weekly
  - c. quarterly
  - d. monthly

ANS: D                      DIF: 1                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

51. Cash budgets include all of the following EXCEPT \_\_\_\_\_.
- a. a statement of the company's cash inflows and outflows
  - b. an analysis of interest on cash earned from company profits
  - c. an indication when the company can invest excess funds in securities
  - d. a tangible standard against which to compare actual cash inflows and outflows

ANS: B                      DIF: 2                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

52. Companies such as Coca-Cola generate more than half their annual revenues from sales outside the United States, including Europe. If the dollar gets stronger relative to the euro, what will be the financial impact on the company?
- a. Overall earnings will decrease
  - b. Earnings will decrease in euros, but increase in dollars
  - c. Overall earnings will increase
  - d. Earnings will increase in euros, but decrease in dollars

ANS: A                      PTS: 1                      DIF: 2                      REF: International Accounting  
NAT: AACSB Reflective Thinking                      MSC: AP

53. Who is recognized worldwide as the body with sole responsibility and authority to issue pronouncements on international accounting standards?
- a. FASB
  - b. The World Bank
  - c. IASC
  - d. GAAP

ANS: C                      PTS: 1                      DIF: 2                      REF: International Accounting  
NAT: AACSB Analytic                      MSC: KN

## TRUE/FALSE

1. Accounting is the language of business.

ANS: T                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

2. Daily business decisions are generally unaffected by accounting information; long-term decisions, however, are affected by accounting information and the interpretation of financial reports.

ANS: F                      DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Reflective Thinking                      MSC: AP

3. Accounting information can be as important to those outside the organization as it is to those inside the organization.

ANS: T                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

4. Most companies refuse to share any financial information with employees.

ANS: F                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

5. Accountants play fundamental roles in not only business but also other aspects of society.

ANS: T                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

6. Since publicly traded companies are required to report their financial information, anyone can find out how much Target made during the past three months.

ANS: T                      DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Reflective Thinking                      MSC: KN

7. The natural progression of a business begins with operating the business.

ANS: F                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Reflective Thinking                      MSC: KN

8. Accountants play a role in all three business activities: financing, investing, and operating.

ANS: T                      DIF: 1                      REF: Users of Accounting Information  
NAT: AACSB Reflective Thinking                      MSC: KN

9. Monica is deciding which new markets look the most promising. She is engaged in an investing activity.

ANS: T                      DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Reflective Thinking                      MSC: AP

10. Financing activities focus on providing valuable assets required to run a business.

ANS: F                      DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

11. Investing activities focus on selling goods and services, but they also consider cost control as an important element of sound financial management.

ANS: F                      DIF: 2                      REF: Users of Accounting Information  
NAT: AACSB Analytic                      MSC: KN

12. Camille is an accountant who works for a firm providing auditing services to other businesses. Camille is a public accountant.

ANS: T                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Reflective Thinking                      MSC: AP

13. Public accountants are typically employees of the firm for which they are providing services.

ANS: F                      DIF: 1                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

14. A public accounting firm is prohibited from providing both consulting services and audit services to the same firm.

ANS: F                      PDIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

15. An accountant employed by a business other than an accounting firm is called a management accountant.

ANS: T                      DIF: 1                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

16. Only public accountants can become CPAs.

ANS: F                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

17. Miles is an accountant and works for a firm that provides tax planning and preparation services to other businesses. Miles is a management accountant.

ANS: F                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Reflective Thinking                      MSC: AP

18. Government accounting reports show the profit or loss of an organization.

ANS: F                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

19. The primary role of government accountants is to determine how efficiently their organizations have accomplished their objectives.

ANS: T                      DIF: 1                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

20. Government accountants frequently specialize in different aspects of accounting, such as cost accounting, tax accounting, and auditing.

ANS: F                      DIF: 2                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

21. The not-for-profit sector is one of the fastest growing segments of accounting practice.

ANS: T                      DIF: 1                      REF: Accounting Professionals  
NAT: AACSB Analytic                      MSC: KN

22. The accounting process converts individual transactions into financial statements.

ANS: T                      DIF: 1                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

23. GAAP principles are established by a federal government agency to ensure consistency.

ANS: F                      DIF: 2                      REF: The Foundation of the Accounting System  
NAT: AACSB Analytic                      MSC: KN

24. Assets can include intangible possessions such as patents and trademarks.

ANS: F                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

25. A firm has \$10 million in assets and \$5 million in owner's equity. Therefore, the firm must also have \$5 million in liabilities.

ANS: T                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

26. Assume a company buys a machine worth \$1 million and pays for it by borrowing the funds from a bank. The firm's assets will rise by \$1 million and its liabilities will also rise by \$1 million. Owners' equity will not change.

ANS: T                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Double-entry bookkeeping refers to the process by which accounting transactions are recorded.

ANS: T                      DIF: 2                      REF: The Accounting Cycle  
NAT: AACSB Analytic                      MSC: KN

28. A firm's balance sheet shows its financial position over a period of time.

ANS: F                      DIF: 1                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

29. The balance sheet is based on the accounting equation.

ANS: T                      DIF: 1                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

30. The three principal financial statements are the balance sheet, income statement, and the statement of retained earnings.

ANS: F                      DIF: 1                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

31. Assets are shown in descending order of liquidity.

ANS: T                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

32. The left side of the balance sheet lists claims against assets.

ANS: F                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

33. On a balance sheet, total assets must always equal the sum of liabilities and owners' equity.

ANS: T                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

34. When examining a statement of cash flows, investors obtain relevant information about a firm's cash receipts and payments for its operations, investments, and financing during an accounting period.

ANS: T                      DIF: 1                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

35. Accrual accounting recognizes revenues and expenses when cash changes hands.

ANS: F                      DIF: 1                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

36. Depreciation is reported as an expense on the firm's income statement, but does not involve any actual cash.

ANS: T                      DIF: 2                      REF: Financial Statements  
NAT: AACSB Analytic                      MSC: KN

37. Ratios assist managers by interpreting actual performance and making comparisons with what should have happened.

ANS: T                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

38. The current ratio is a leverage ratio.

ANS: F                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

39. Two commonly used liquidity ratios are the acid-test ratio and the leverage ratio.

ANS: F                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

40. A firm's acid-test ratio can never be higher than its current ratio.

ANS: T                      DIF: 2                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

41. A firm has \$10 million in current assets, of which \$5 million is inventory. If the company has \$5 million in current liabilities, then its current ratio equals 1.0.

ANS: F                      DIF: 2                      REF: Financial Ratio Analysis  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Return on assets is a profitability ratio.

ANS: T                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

43. Profitability ratios measure a firm's ability to meet its short-term obligations.

ANS: F                      DIF: 1                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

44. A leverage ratio of 20 percent means that the firm is relying more on borrowed money than owners' equity.

ANS: F                      DIF: 2                      REF: Financial Ratio Analysis  
NAT: AACSB Analytic                      MSC: KN

45. If a firm has an asset turnover ratio of 2.00, it means that it needs \$2 in assets to generate a \$1 in sales.

ANS: F                      DIF: 2                      REF: Financial Ratio Analysis  
NAT: AACSB Reflective Thinking                      MSC: AP

46. The budget establishes the standards with which actual performance may be compared.

ANS: T                      DIF: 1                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

47. A budget is essentially a long-term financial plan.

ANS: F                      DIF: 1                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

48. Cash budgets are typically prepared on a weekly basis.

ANS: F                      DIF: 1                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

49. A company's overall operating budget is a composite of many individual budgets for separate units of the firm.

ANS: T                      DIF: 2                      REF: Budgeting  
NAT: AACSB Analytic                      MSC: KN

50. A U.S. company with a subsidiary in France will restate the U.S. operations from U.S. dollars to euros.

ANS: F                      DIF: 1                      REF: International Accounting  
NAT: AACSB Analytic                      MSC: KN

51. If a U.S. company has substantial operations in Europe, and the value of the euro falls relative to the U.S. dollar, the company's profits, stated in U.S. dollars, will also fall.

ANS: F                      DIF: 2                      REF: International Accounting  
NAT: AACSB Analytic                      MSC: KN

52. An international firm's consolidated financial statements must reflect any gains or losses due to changes in exchange rates during specific periods of time.

ANS: T                      DIF: 2  
NAT: AACSB Analytic

REF: International Accounting  
MSC: KN

## New Chapter 17 questions

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### MATCHING

*Complete the following using the terms listed.*

- a. bonds
  - b. commercial banks
  - c. NASDAQ
  - d. credit unions
  - e. financial system
  
  - f. call provision
  - g. fourth market
  - h. financial institutions
  - i. securities
  
  - j. New York Stock Exchange
  - k. ATM's
  - l. limit order
  - m. debentures
  - n. market order
  - o. common stock
1. The process by which money flows from savers to users is called the \_\_\_\_.
  2. \_\_\_\_ represent obligations on the part of issuers to provide purchasers with expected or stated returns on the funds invested or loaned.
  3. By selling \_\_\_\_, a firm obtains long-term debt capital.
  4. \_\_\_\_ are backed only by the financial reputation of the issuing corporation.
  5. A \_\_\_\_ allows the issuer to redeem the bond before its maturity at a specified price.
  6. The basic form of corporate ownership is \_\_\_\_.
  7. The \_\_\_\_ is sometimes referred to as the Big Board—is the most famous and one of the oldest stock markets in the world, having been founded in 1792.
  8. All trading on the \_\_\_\_ takes place through its intranet, rather than on a trading floor.
  9. The \_\_\_\_ is the direct trading of exchange-listed stocks off the floor of the exchange, in the case of NYSE-listed stocks, or outside the network, in the case of NASDAQ-listed stocks.
  10. The most common type of order is called a \_\_\_\_\_. It instructs the broker to obtain the best possible price—the highest price when selling and the lowest price when buying.
  11. A \_\_\_\_ sets a price ceiling when buying or a price floor when selling.
  12. \_\_\_\_ serve as an intermediary between savers and borrowers, collecting funds from savers and then lending the funds to individuals, businesses, and governments.
  13. \_\_\_\_ are the largest and probably most important financial institution in the United States and in most other countries as well.



14. \_\_\_\_ allow customers to make banking transactions at any time by inserting an electronic card into the machine and entering a personal identification number.
15. \_\_\_\_ are cooperative financial institutions that are owned by their depositors, all of whom are members.

1.	ANS: E NAT: AACSB Analytic	DIF: 2	REF: Understanding the Financial System MSC: KN	
2.	ANS: I MSC: KN	DIF: 2	REF: Types of Securities	NAT: AACSB Analytic
3.	ANS: A MSC: KN	DIF: 2	REF: Types of Securities	NAT: AACSB Analytic
4.	ANS: M MSC: KN	DIF: 2	REF: Types of Securities	NAT: AACSB Analytic
5.	ANS: F MSC: KN	DIF: 2	REF: Types of Securities	NAT: AACSB Analytic
6.	ANS: O Analytic	DIF: 2 MSC: KN	REF: Financial Institutions	NAT: AACSB
7.	ANS: J MSC: KN	DIF: 2	REF: Financial Markets	NAT: AACSB Analytic
8.	ANS: C NAT: AACSB Analytic	DIF: 2	REF: Understanding Stock Markets MSC: KN	
9.	ANS: G NAT: AACSB Analytic	DIF: 2	REF: Understanding Stock Markets MSC: KN	
10.	ANS: N NAT: AACSB Analytic	DIF: 2	REF: Understanding Stock Markets MSC: KN	
11.	ANS: L NAT: AACSB Analytic	DIF: 2	REF: Understanding Stock Markets MSC: KN	
12.	ANS: H MSC: KN	DIF: 2	REF: Financial Markets	NAT: AACSB Analytic
13.	ANS: B Analytic	DIF: 2 MSC: KN	REF: Financial Institutions	NAT: AACSB
14.	ANS: K Analytic	DIF: 2 MSC: KN	REF: Financial Institutions	NAT: AACSB
15.	ANS: D Analytic	DIF: 2 MSC: KN	REF: Financial Institutions	NAT: AACSB

## ESSAY

1. Describe how the financial system operates.

ANS:

The financial system is the process by which funds are transferred between savers and borrowers. In any economy there are units who have surplus funds (savers), and there are units in need of additional funds (borrowers or users). Savings are provided by households, businesses, and government. At the same time, borrowers also consist of households, businesses, and government. However, households save more than they borrow, while businesses and governments tend to be net borrowers. Funds can be transferred between savers and borrowers in two different ways: through the financial markets or through financial institutions.

DIF: 3

REF: Understanding the Financial System

2. Explain how saving changes as one ages.

ANS:

People often transition from net borrowers to net savers as they get older. When you graduate from college and begin a career, you likely have little in the way of savings. In fact, you may be deeply in debt. In the early years of your career, you may spend more than you make as you acquire major assets, such as a home. So in these early years your *net worth*—the difference between what you own and what you owe—is very low and may even be negative. However, as your career progresses and your income rises, you will begin to build a financial nest egg to fund retirement and other needs. Your net worth will also increase. It will continue to increase until you retire and begin drawing on your retirement savings.

DIF: 2

REF: Understanding the Financial System

NAT: AACSB Knowledge

MSC: AP

3. Explain the different types of bonds.

ANS:

**Government bonds** are bonds sold by the U.S. Department of the Treasury. Because government bonds are backed by the full faith and credit of the U.S. government, they are considered the least risky of all bonds.

**Municipal bonds** are bonds issued by state or local governments. Two types of municipal bonds exist: revenue and general obligation.

**Corporate bonds** are a diverse group and often vary based on the collateral—the property pledged by the borrower—that backs the bond.

**Mortgage pass-through securities** are backed by a pool of mortgage loans purchased from lenders, such as savings banks.

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

4. Explain the main features of common stock.

ANS:

Common stock is the basic form of corporate ownership. Purchasers of common stock are the true owners of a corporation. Holders of common stock vote on major company decisions, such as purchasing another company or electing a board of directors.

Common stockholders benefit from company success, and they risk the loss of their investments if the company fails.

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

5. Explain the difference between primary and secondary markets.

ANS:

In the **primary market**, firms and governments issue securities and sell them initially to the public. When a company needs capital to purchase inventory, expand a plant, make major investments, acquire another firm, or pursue other business goals, it may sell a bond or stock issue to the investing public.

The **secondary market** is a collection of financial markets in which previously issued securities are traded among investors. The corporations or governments that originally issued the securities being traded are not directly involved in the secondary market. They neither make any payments when securities are sold nor receive any of the proceeds when securities are purchased.

DIF: 2  
MSC: AP

REF: Financial Markets

NAT: AACSB Knowledge

6. Explain how the fourth market has begun to open up to smaller, individual investors.

ANS:

The fourth market has opened up to smaller investors through *electronic communications networks* (ECNs). In ECNs, buyers and sellers meet in a virtual stock market and trade directly with one another. No specialist or market maker is involved.

DIF: 2  
MSC: AP

REF: Financial Markets

NAT: AACSB Knowledge

7. What is the difference between a depository financial institution and a nondepository institution? Give an example of each.

ANS:

A depository institution accepts deposits, such as checking accounts, that are payable on demand to a specific individual or organization. Nondepository institutions acquire capital by raising investment capital and reinvesting earned income rather than through deposits. A commercial bank is an example of a depository institution; a life insurance company is an example of a nondepository institution.

DIF: 1  
MSC: AP

REF: Financial Institutions

NAT: AACSB Reflective Thinking

8. Explain how banks operate.

ANS:

Banks raise funds by offering a variety of checking and savings deposits to customers. The banks then pool these deposits and lend most of them out in the form of consumer and business loans.

DIF: 1  
MSC: AP

REF: Financial Institutions

NAT: AACSB Reflective Thinking

9. Explain what a mutual fund is and give an example of one.

ANS:

**Mutual funds** are financial intermediaries that raise money from investors by selling shares. They then use the money by investing in securities that are consistent with the mutual fund's objectives. For example, a stock mutual fund invests mainly in shares of common stocks.

DIF: 1  
MSC: AP

REF: Financial Institutions

NAT: AACSB Reflective Thinking

10. What is the Federal Reserve's most important function? How does this function affect the nation's rate of inflation and employment?

ANS:

The Fed's most important function is controlling the supply of money and credit, known as monetary policy. The Fed's job is to make sure the money supply grows at an appropriate rate, allowing the economy to expand while inflation remains in check. If the money supply grows too quickly, inflationary pressures can build. If the money supply doesn't grow fast enough, the economy will slow and unemployment will increase.

DIF: 3  
MSC: AP

REF: The Role of the Federal Reserve

NAT: AACSB Reflective Thinking

11. Explain the Federal Reserve's four major policy tools.

ANS:

The Fed's major policy tools are reserve requirements, the discount rate, open market operations, and term auction facility loans. If the Fed raises the reserve requirements, banks will have less money to lend, interest rates will rise, and economic growth will slow. Lowering the reserve requirement will have the opposite effect. The discount rate is the rate the Fed charges member banks for short-term loans. If the Fed wants to increase the money supply growth rate, it could lower the discount rate. The decrease will make it less expensive for banks to borrow funds. Banks in turn will lower the interest rate they charge borrowers. Open market operations consist of the Fed buying or selling U.S. government securities. If the Fed buys government securities, banks will have more money to lend and interest rates will fall. If the Fed sells government securities, banks will have less money to lend and interest rates will rise. Term auction facility loans are designed to provide liquidity to the financial markets by boosting bank reserves. Banks compete for short-term lending at favorable rates, secured by securities such as mortgage loans.

DIF: 3  
NAT: AACSB Analytic

REF: The Role of the Federal Reserve

MSC: KN

12. Explain the government regulation of the financial markets and the role of the SEC.

ANS:

Regulation of U.S. financial markets is primarily a function of the federal government, although states also regulate them. Federal regulation grew out of various trading abuses during the 1920s. To restore confidence and stability in the financial markets after the 1929 stock market crash, Congress passed a series of landmark legislative acts that have formed the basis of federal securities regulation ever since. The U.S. Securities and Exchange Commission (SEC), created in 1934, is the principal federal regulatory overseer of the securities markets. The SEC's mission is to administer securities laws and protect investors in public securities transactions. The SEC has broad enforcement power. It can pursue civil actions against individuals and corporations.

DIF: 3

REF: Regulation of the Financial System

## 13. Describe the global financial environment.

ANS:

Major U.S. banks have extensive international operations. They accept deposits from, and make loans to, customers throughout the world. Foreign banks also operate throughout the world, including in the United States. Virtually all nations have a central bank, similar to the Federal Reserve, and these central banks play roles much like the Fed. Central bankers from various nations often act together, such as adjusting interest rates and buying or selling currencies, to improve global economic conditions.

DIF: 2

REF: The Financial System: A Global Perspective

NAT: AACSB Reflective Thinking

MSC: AP

**MULTIPLE CHOICE**

1. In the U.S. financial system, which of the following is a net saver?
- The government
  - Business
  - Households
  - Financial institutions

ANS: C

DIF: 1

REF: Understanding the Financial System

NAT: AACSB Analytic

MSC: KN

2. Zachary buys a bond issued by the city of Atlanta. This is an example of funds being transferred from a saver to a user \_\_\_\_\_.
- through the financial markets
  - through a financial institution
  - directly
  - through the government

ANS: A

DIF: 2

REF: Understanding the Financial System

NAT: AACSB Reflective Thinking

MSC: AP

3. One of the most important variables that determines how much a person saves is \_\_\_\_\_.
- the person's age
  - the person's gender
  - the person's race
  - what country they are from

ANS: A

DIF: 2

REF: Understanding the Financial System

NAT: AACSB Analytic

MSC: KN

4. The difference between what you own and what you owe is called \_\_\_\_\_.
- gross worth
  - net worth
  - net value
  - debt factor

ANS: B

DIF: 2

REF: Understanding the Financial System

NAT: AACSB Analytic

MSC: KN

5. Funds can be transferred between savers and users in two ways: \_\_\_\_\_.

- a. individually and groups
- b. in person and electronically
- c. free and not free
- d. directly and indirectly

ANS: D                      DIF: 1

REF: Understanding the Financial System

NAT: AACSB Analytic

MSC: KN

6. Indirect transfer of funds occurs through: \_\_\_\_\_.

- a. financial institutions
- b. financial markets
- c. personal checks
- d. both a and b

ANS: D                      DIF: 2

REF: Understanding the Financial System

NAT: AACSB Analytic

MSC: KN

7. Securities are also called \_\_\_\_\_.

- a. cash
- b. savings accounts
- c. financial instruments
- d. financial institutions

ANS: C                      DIF: 2

REF: Types of Securities    NAT: AACSB Knowledge

MSC: AP

8. All of the following are types of securities except \_\_\_\_\_.

- a. money market instruments
- b. cash
- c. bonds
- d. stock

ANS: B                      DIF: 2

REF: Types of Securities    NAT: AACSB Knowledge

MSC: AP

9. \_\_\_\_\_ are short-term debt securities issued by governments, financial institutions, and corporations.

- a. Money market instruments
- b. Bonds
- c. Checks
- d. Stock

ANS: A                      DIF: 2

REF: Types of Securities    NAT: AACSB Knowledge

MSC: AP

10. Alex buys a money market instrument. It will mature in \_\_\_\_\_.

- a. ten years

- b. two years
- c. one year
- d. six months

ANS: C                      DIF: 2                      REF: Types of Securities   NAT: AACSB Reflective Thinking  
MSC: AP

11. \_\_\_\_ are short-term securities issued by the U.S. Treasury and backed by the full faith and credit of the U.S. government. .
- a. Bonds
  - b. CD
  - c. Commercial paper
  - d. Treasury bills

ANS: D                      DIF: 2                      REF: Types of Securities   NAT: AACSB Knowledge  
MSC: AP

12. Treasury bills have a minimum denomination of \_\_\_\_.
- a. \$100,000
  - b. \$1,000
  - c. 10,000
  - d. 100

ANS: B                      DIF: 3                      REF: Types of Securities NAT: AACSB Knowledge  
MSC: AP

13. \_\_\_\_ is a form of short-term financing sold by corporations, such as Salton Brands, that mature from 1 to 270 days after the date of issue.
- a. Commercial paper
  - b. CD
  - c. Treasury bills
  - d. Bonds

ANS: A                      DIF: 1                      REF: Types of Securities   NAT: AACSB Analytic  
MSC: KN

14. A \_\_\_\_ is a time deposit at a financial institution, such as a commercial bank, savings bank, or credit union.
- a. Commercial paper
  - b. CD
  - c. Treasury bills
  - d. Bonds

ANS: B                      DIF: 1                      REF: Types of Securities   NAT: AACSB Analytic  
MSC: KN

15. \_\_\_\_ are creditors of a corporation or government body

- a. Commercial paper holders
- b. CD holders
- c. Treasury bills holders
- d. Bondholders

ANS: D                      DIF: 1                      REF: Types of Securities    NAT: AACSB Analytic  
MSC: KN

16. The US Department of Treasury sells what type of bonds?

- a. Government bonds
- b. Corporate bonds
- c. Treasury bills bonds
- d. Municipal bonds

ANS: A                      DIF: 1                      REF: Types of Securities    NAT: AACSB Analytic  
MSC: KN

17. Two types of municipal bonds exist. What are they?

- a. Government bond and mortgage pass-through security bond
- b. Corporate bond and General Obligation bond
- c. Revenue bond and General Obligation Bond
- d. Revenue bond and Government Bond

ANS: C                      DIF: 3                      REF: Types of Securities    NAT: AACSB Knowledge  
MSC: AP

18. Corporate bonds are a diverse group and often vary based on the \_\_\_\_ that backs it.

- a. collateral
- b. value
- c. market
- d. company

ANS: A                      DIF: 2                      REF: Types of Securities    NAT: AACSB Knowledge  
MSC: AP

19. Tom just bought a bond from United Pet Group. This bond is only backed by the financial reputation of the company. What type of bond did Tom buy?

- a. unsecured bond
- b. debenture
- c. both a and b
- d. neither a nor b



ANS: C  
Thinking

DIF: 3  
MSC: AP

REF: Types of Securities NAT: AACSB Reflective

20. These securities are backed by a pool of mortgage loans purchased from lenders, such as savings banks.

- a. mortgage bond
- b. mortgage pass-through security
- c. both a and b
- d. corporate bond

ANS: B  
MSC: KN

DIF: 2

REF: Types of Securities NAT: AACSB Analytic

21. Mortgage pass-through securities consist of pools of \_\_\_\_\_, loans made to borrowers with poor credit ratings.

- a. low value mortgages
- b. prime mortgages
- c. subprime mortgages
- d. corporate mortgages

ANS: C  
MSC: KN

DIF: 2

REF: Types of Securities NAT: AACSB Analytic

22. Two factors determine the price of a bond: \_\_\_\_\_ and \_\_\_\_\_.

- a. market and risk
- b. risk and interest rate
- c. interest rate and discount rate
- d. price of other bonds and the company selling the bond

ANS: B  
MSC: KN

DIF: 2

REF: Types of Securities NAT: AACSB Analytic

23. Bonds with ratings of BBB and above are classified as \_\_\_\_\_.

- a. investment-grade bonds
- b. speculative bond
- c. junk bonds
- d. corporate bonds

ANS: A  
MSC: KN

DIF: 1

REF: Types of Securities NAT: AACSB Analytic

24. Other things being equal, the higher the interest rate, the \_\_\_\_\_ the price of a bond.

- a. same
- b. cannot be determined
- c. higher
- d. lower

ANS: C                      DIF: 1                      REF: Types of Securities    NAT: AACSB Analytic  
MSC: KN

25. What provision allows the issuer to redeem the bond before its maturity at a specified price?

- a. bond provision
- b. not such provision exists
- c. redeem provision
- d. call provision

ANS: D                      DIF: 1                      REF: Types of Securities    NAT: AACSB Analytic  
MSC: KN

26. The basic form of corporate ownership is \_\_\_\_\_.

- a. preferred stock
- b. common stock
- c. convertible securities
- d. standard stock

ANS: B                      DIF: 2                      REF: Types of Securities    NAT: AACSB Knowledge  
MSC: AP

27. An owner of which form of stock would receive dividend payments first?

- a. preferred stock
- b. common stock
- c. convertible securities
- d. standard stock

ANS: A                      DIF: 2                      REF: Types of Securities    NAT: AACSB Knowledge  
MSC: AP

28. What feature gives the bondholder or preferred stockholder the right to exchange the bond or preferred stock for a fixed number of shares of common stock?

- a. preferred stock
- b. common stock
- c. convertible securities
- d. standard stock

ANS: C  
MSC: AP

DIF: 2

REF: Types of Securities NAT: AACSB Knowledge

29. Securities are issued and traded in the\_\_\_\_\_.

- a. financial market
- b. securities market
- c. government market
- d. super market

ANS: A  
MSC: AP

DIF: 2

REF: Types of Securities NAT: AACSB Knowledge

30. When a company needs capital to purchase inventory, expand a plant, make major investments, acquire another firm, or pursue other business goals, it may sell a bond or stock issue to the investing public. This is done which market?

- a. primary market
- b. secondary market
- c. government market
- d. super market

ANS: A  
MSC: KN

DIF: 2

REF: Financial Markets NAT: AACSB Analytic

31. The \_\_\_\_\_ is a collection of financial markets in which previously issued securities are traded among investors.

- a. primary market
- b. secondary market
- c. government market
- d. super market

ANS: B  
MSC: KN

DIF: 2

REF: Financial Markets

NAT: AACSB Analytic

32. The two largest stock markets in the world are the \_\_\_\_ and the \_\_\_\_.
- a. New York Stock Exchange; SP 500
  - b. Tokyo Stock Exchange; New York Stock Exchange;
  - c. New York Stock Exchange; Nasdaq stock market
  - d. Tokyo Stock Exchange; London Stock Exchange

ANS: C  
MSC: KN

DIF: 2

REF: Financial Markets

NAT: AACSB Analytic

33. Daily trading on the AMEX market is \_\_\_\_ shares.
- a. over 2 billion
  - b. less than 100 million
  - c. about 1 billion
  - d. over 10 billion

ANS: B  
MSC: KN

DIF: 2

REF: Financial Markets

NAT: AACSB Analytic

34. The \_\_\_\_\_ is perhaps the most international of all stock markets.
- a. New York Stock Exchange
  - b. Tokyo Stock Exchange
  - c. Nasdaq stock market
  - d. London Stock Exchange

ANS: D  
MSC: AP

DIF: 3

REF: Financial Markets

NAT: AACSB Knowledge

35. In \_\_\_\_ buyers and sellers meet in a virtual stock market and trade directly with one another.
- a. electronic communications networks
  - b. the Tokyo Stock Exchange
  - c. the Nasdaq stock market
  - d. online communications networks

ANS: A  
MSC: AP

DIF: 3

REF: Financial Markets

NAT: AACSB Knowledge

36. The most common type of order is called a \_\_\_\_\_. It instructs the broker to obtain the best possible price—the highest price when selling and the lowest price when buying.
- a. fast order
  - b. stock order
  - c. limit order
  - d. market order

ANS: D  
MSC: AP

DIF: 1

REF: Financial Markets

NAT: AACSB Knowledge

37. Which of the following is a depository financial institution?
- a. Credit union
  - b. Life insurance company
  - c. Pension fund
  - d. Mutual fund

ANS: A

DIF: 1

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

38. Which of the following is a nondepository financial institution?
- a. Commercial bank
  - b. Savings bank
  - c. Life insurance company
  - d. Credit union

ANS: C

DIF: 1

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

39. All of the following statements are correct EXCEPT \_\_\_\_\_.
- a. The number of commercial banks is declining each year
  - b. Commercial banks are prohibited from selling securities or insurance
  - c. Commercial banks are the most important financial institution
  - d. Banks offer the widest range of services of any financial institution

ANS: B

DIF: 2

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

40. Commercial banks obtain most of their funds from \_\_\_\_\_.
- a. the government
  - b. the sale of securities
  - c. stockholders
  - d. depositors

ANS: D

DIF: 1

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

41. Sean made a purchase at his local Wal-Mart. Instead of writing a check, Sean used a card issued by his bank with a Visa logo on the front. He entered his PIN and the purchase was automatically deducted from his checking account. Sean used his \_\_\_\_\_ card.
- a. debit
  - b. credit
  - c. ATM
  - d. point-of-sale

ANS: A                      DIF: 1                      REF: Financial Institutions  
NAT: AACSB Reflective Thinking                      MSC: AP

42. With the prominence of online banking, more than \_\_\_\_\_ of U.S. households currently do some or all of their banking via the Internet.
- a. two-thirds
  - b. one-half
  - c. one-third
  - d. one-fifth

ANS: C                      DIF: 3                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

43. Deposit insurance shifts most of the financial risk of bank failures from depositors to \_\_\_\_\_.
- a. the federal government
  - b. the bank's stockholders
  - c. borrowers
  - d. the bank's creditors

ANS: A                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

44. Which of the following financial institutions is organized as a not-for-profit cooperative?
- a. Commercial bank
  - b. Savings bank
  - c. Life insurance company
  - d. Credit union

ANS: D                      DIF: 1                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

45. Which of the following financial institutions would typically invest the largest portions of its funds in home mortgage loans?
- a. Commercial bank
  - b. Credit union
  - c. Savings bank
  - d. Life insurance company

ANS: C                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

46. Savings banks were originally established to make \_\_\_\_\_ loans.
- a. business
  - b. home mortgage
  - c. agricultural
  - d. automobile

ANS: B                      DIF: 2                      REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

47. Nina's financial institution has an office next to where she works. Everyone who uses the financial institution's services either works for Nina's employer or is related to someone who does. Nina's financial institution is a \_\_\_\_\_.
- credit union
  - savings bank
  - commercial bank
  - state chartered bank

ANS: A

DIF: 2

REF: Financial Institutions

NAT: AACSB Reflective Thinking

MSC: AP

48. The process used by an insurance company to determine whom to insure and how much to charge is called \_\_\_\_\_.
- a premium
  - a insuring agreement
  - underwriting
  - indemnity

ANS: C

DIF: 2

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

49. Which of the following financial institutions would invest the greatest percentage of its assets in common stocks and other long-term investments?
- Commercial bank
  - Property and liability insurance company
  - Credit union
  - Pension fund

ANS: D

DIF: 2

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

50. What type of financial institution raises money from investors by selling shares?
- Mutual fund
  - Property and liability insurance company
  - Credit union
  - Pension fund

ANS: A

DIF: 2

REF: Financial Institutions

NAT: AACSB Analytic

MSC: KN

51. There are \_\_\_\_\_ Federal Reserve districts.
- 5
  - 8
  - 12
  - 15

ANS: C

DIF: 2

REF: The Role of the Federal Reserve

NAT: AACSB Analytic

MSC: KN

52. All of the following statements concerning the Fed are correct EXCEPT \_\_\_\_\_.
- the Fed is the nation's central bank
  - the Fed acts as the banker's bank
  - virtually all large commercial banks are Fed members

d. credit unions and savings banks must belong to the Fed

ANS: D                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

53. All of the following are included in M1 EXCEPT \_\_\_\_\_.

- a. money market mutual funds
- b. total value of coins
- c. checking accounts
- d. currency in circulation

ANS: A                      DIF: 1                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

54. M2 includes \_\_\_\_\_ M1.

- a. all of
- b. none of
- c. some of

ANS: A                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

55. Which of the following is not one of the four major policy tools The Fed has for controlling the growth in the supply of money and credit?

- a. reserve requirements
- b. open market operations
- c. Term Auction Facility loans
- d. check clearing

ANS: D                      DIF: 3                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

56. The rate the Fed charges member banks for short-term loans is called the \_\_\_\_\_.

- a. federal funds rate
- b. margin rate
- c. discount rate
- d. reserve requirement

ANS: C                      DIF: 1                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

57. Which of the following interest rates does the Federal Reserve actually set?

- a. Discount rate
- b. Federal funds rate
- c. Government bond rate
- d. Commercial paper rate

ANS: A                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

58. If the Fed reduced reserve requirements, \_\_\_\_\_.

- a. banks would have less money to lend businesses and consumers
- b. interest rates would fall



- c. inflation would decline
- d. economic growth would decline

ANS: B                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Reflective Thinking                      MSC: AP

59. Which of the following actions would have the effect of increasing the supply of money and credit and lowering interest rates?
- a. The Fed buying government securities
  - b. The Fed raising the margin requirement
  - c. The Fed raising the reserve requirement
  - d. The Fed raising the discount rate

ANS: A                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Reflective Thinking                      MSC: AP

60. When the Fed sells government securities, banks have \_\_\_\_\_ money to lend and economic growth \_\_\_\_\_.
- a. less; will slow
  - b. less; will accelerate
  - c. more; will slow
  - d. more; will accelerate

ANS: A                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

61. Which of the following policy tools does the Fed use most frequently?
- a. Changes to the discount rate
  - b. Changes to the reserve requirement
  - c. Changes to margin requirements
  - d. Open market operations

ANS: D                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Analytic                      MSC: KN

62. The chairman of the Federal Reserve Board can accelerate economic activity by lowering interest rates. What primary method does the Federal Reserve use to accomplish this?
- a. Open market operations
  - b. Increasing the discount rate
  - c. Increasing reserve requirements
  - d. Selling margin requirements

ANS: A                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Reflective Thinking                      MSC: AP

63. This new monetary policy tool makes extra funds available to banks at low interest rates.
- a. Open market operations
  - b. Term Auction Facility
  - c. discount rate
  - d. reserve requirement

ANS: B                      DIF: 2                      REF: The Role of the Federal Reserve  
NAT: AACSB Reflective Thinking                      MSC: AP

64. Which of the following agencies regulates both state and federally chartered commercial banks?

- a. The Federal Reserve
- b. Federal Comptroller
- c. FDIC
- d. State banking agencies

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Regulation of the Financial System  
MSC: KN

65. The SEC requires virtually all new public issues of corporate securities to be registered. As part of the registration process for a new security issue, the issuer must prepare a \_\_\_\_.

- a. essay
- b. application
- c. prospectus
- d. financial report

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Regulation of the Financial System  
MSC: KN

66. \_\_\_\_ is defined as the use of material nonpublic information about a company to make investment profits.

- a. Insider Trading
- b. Outsider Trading
- c. Cheating
- d. Poor Regulation

ANS: A                      DIF: 1  
NAT: AACSB Analytic

REF: Regulation of the Financial System  
MSC: KN

67. Financial markets are regulated by \_\_\_\_.

- a. the SEC
- b. professional associations
- c. the major financial markets.
- d. all of the above

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Regulation of the Financial System  
MSC: KN

68. All market participants must keep detailed records of every aspect of every trade. What is this called?

- a. paper trail
- b. trade record
- c. audit trail
- d. none of the above

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Regulation of the Financial System  
MSC: KN

69. Out of the 30 largest banks in the world, \_\_\_\_\_ are U.S. banks.

- a. less than five

- b. between five and ten
- c. between ten and fifteen
- d. more than fifteen

ANS: A                      DIF: 2  
 NAT: AACSB Analytic

REF: The Financial System: A Global Perspective  
 MSC: KN

70. If the Fed pushes interest rates lower, policymakers at other nations' central banks will most likely?
- a. increase their rates
  - b. follow suit, and drop their rates as well
  - c. do nothing; the Fed's actions have no influence on other countries central banks
  - d. keep their rates the same because a drop in US rates will help their economy

ANS: B                      DIF: 2  
 NAT: AACSB Reflective Thinking

REF: The Financial System: A Global Perspective  
 MSC: AP

## TRUE/FALSE

1. The financial system describes the process by which funds flow from savers to users.

ANS: T                      DIF: 1  
 NAT: AACSB Analytic

REF: Understanding the Financial System  
 MSC: KN

2. Businesses are net savers, while households are net users of funds.

ANS: F                      DIF: 1  
 NAT: AACSB Analytic

REF: Understanding the Financial System  
 MSC: KN

3. The vast majority of funds flow through direct transfers.

ANS: F                      DIF: 1  
 NAT: AACSB Analytic

REF: Understanding the Financial System  
 MSC: KN

4. Securities represent obligations on the part of issuers—businesses and governments—to provide purchasers with expected or stated returns on the funds invested or loaned.

ANS: T                      DIF: 1  
 NAT: AACSB Analytic

REF: Types of Securities  
 MSC: KN

5. Money market instruments are generally high-risk securities and are purchased by investors when they are in need of a quick resell.

ANS: F                      DIF: 1  
 NAT: AACSB Knowledge

REF: Types of Securities  
 MSC: AP

6. Treasury bills have a minimum denomination of \$1,000.

ANS: T                      DIF: 1  
 NAT: AACSB Knowledge

REF: Types of Securities  
 MSC: AP

7. Commercial paper is securities sold by corporations, such as General Electric, that mature from 1 to 270 months from the date of issue

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

8. Commercial paper is generally considered a very low-risk security

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

9. CDs with denominations of \$1,000,000 or less per depositor are federally insured.

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

10. Bonds are issued in various denominations—face values—usually between \$100 and \$2,500.

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

11. Bondholders are creditors, therefore they have a claim on the firm's assets that must be satisfied before any claims of stockholders in the event of the firm's bankruptcy, reorganization, or liquidation.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

12. Jeff wants to purchase a low risk bond. Therefore, he should buy a government bond.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Reflective thinking                      MSC: AP

13. The treasury sells bonds that mature in 2, 5, 10, and 30 years from the date of issue.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

14. Municipal bonds are bonds issued by the federal government.

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

15. A town is considering putting in a toll road that will produce revenue for the town. To provide funding, the town plans to sell *revenue bonds*.

ANS: T                      DIF: 2                      REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

16. Municipal bonds are exempt of interest payments from federal income tax.

ANS: T

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

17. *Secured bonds* are backed by a specific pledge of company assets.

ANS: T

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

18. Mortgage pass-through securities are relatively safe, even when loans are made to borrowers with poor credit ratings.

ANS: F

DIF: 2

REF: Types of Securities

NAT: AACSB Analytic

MSC: KN

19. The *credit crisis* came about because of subprime mortgages.

ANS: T

DIF: 2

REF: Types of Securities

NAT: AACSB Analytic

MSC: KN

20. Bonds vary considerably in terms of risk. One tool used by bond investors to assess the risk of a bond is its so-called *risk rating*.

ANS: F

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

21. Bonds with the highest level of risk are rated AAA.

ANS: F

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

22. Bonds with ratings of BB and below are classified as speculative, or so-called junk, bonds.

ANS: T

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

23. Junk bonds pay about 70 percent more in interest than do investment-grade corporate bonds.

ANS: F

DIF: 2

REF: Types of Securities

NAT: AACSB Knowledge

MSC: AP

24. The price of a bond is affected by its interest rate.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

25. The market interest rate does not have any affect on bond prices.

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

26. As market interest rates rise, bond prices fall.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

27. Issuers tend to call bonds when market interest rates are declining.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

28. Purchasers of preferred stock are the true owners of a corporation.

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Knowledge                      MSC: AP

29. Owners of common stock expect returns on their investment in the form of cash dividend payments, expected price appreciation, or both.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Analytic                      MSC: KN

30. The market value of a stock is the price at which the stock is currently selling.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Analytic                      MSC: KN

31. In the long run stock prices tend to follow a company's revenues

ANS: F                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Analytic                      MSC: KN

32. Preferred stockholders receive fixed dividends.

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Analytic                      MSC: KN

33. Convertible bonds pay lower interest rates than those lacking conversion features

ANS: T                      DIF: 2                      REF: Types of Securities  
NAT: AACSB Analytic                      MSC: KN

34. In the secondary market, firms and governments issue securities and sell them initially to the public.

ANS: F                      DIF: 2                      REF: Financial Markets  
NAT: AACSB Analytic                      MSC: KN

35. When a company offers stock for sale to the general public for the first time, it is called an initial public offering.

ANS: T                      DIF: 2                      REF: Financial Markets  
NAT: AACSB Analytic                      MSC: KN

36. Securities are sold to the investing public in two ways: in open auctions and through investment bankers.

ANS: T                      DIF: 2                      REF: Financial Markets  
NAT: AACSB Analytic                      MSC: KN

37. Sales of most corporate and municipal securities are made via auctions.

ANS: F                      DIF: 2                      REF: Financial Markets  
NAT: AACSB Knowledge                      MSC: AP

38. The New York Stock Exchange (NYSE) is a secondary market.

ANS: T                      DIF: 2                      REF: Financial Markets  
NAT: AACSB Knowledge                      MSC: AP

39. Any firm can be listed on the New York Stock Exchange.

ANS: F                      DIF: 1                      REF: Financial Markets  
NAT: AACSB Knowledge                      MSC: AP

40. The Nasdaq is a computerized communications network that links member investment firms and it is the world's largest intranet.

ANS: T                      DIF: 1                      REF: Financial Markets  
NAT: AACSB Knowledge                      MSC: AP

41. Virtually all developed countries and many developing countries have stock exchanges.

ANS: T                      DIF: 1                      REF: Financial Markets  
NAT: AACSB Knowledge                      MSC: AP

42. Most investors are members of the NYSE, or other stock markets, and therefore they do not need to use the services of a brokerage firm to buy or sell stocks.

ANS: F                      DIF: 1                      REF: Financial Markets  
NAT: AACSB Reflective thinking                      MSC: AP

43. Nondepository institutions include life insurance companies, such as Northwestern Mutual; pension funds, such as the Florida state employee pension fund; and mutual funds.

ANS: T                      DIF: 1                      REF: Financial Markets  
NAT: AACSB Reflective thinking                      MSC: AP

44. The number of banks has declined dramatically in recent years because larger banks are buying smaller banks.

ANS: T                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

45. Banking fees and other “non-interest income” constitute approximately one-third of total bank revenue.

ANS: T                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

46. Deposit insurance means that, in the event the bank fails, depositors are paid in full by the FDIC, up to \$250,000.

ANS: T                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

47. Savings banks have greatly expanded their business lending activities in recent years while cutting back on their home mortgage lending activity.

ANS: F                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

48. In order to join a credit union, you have to share something in common with other credit union members.

ANS: T                      DIF: 1                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

49. Credit union deposits are insured by private insurance companies.

ANS: F                      DIF: 2                      REF: Financial Institutions  
NAT: AACSB Analytic                      MSC: KN

50. Underwriting is the process used by insurance companies to determine whom to insure and what to charge.





NAT: AACSB Analytic

MSC: KN

61. The discount rate is the rate banks charge one another for short-term loans.

ANS: F

DIF: 1

REF: The Role of the Federal Reserve

NAT: AACSB Analytic

MSC: KN

62. When the Fed buys government securities, it adds to the supply of money and credit, which causes a reduction in interest rates.

ANS: T

DIF: 2

REF: The Role of the Federal Reserve

NAT: AACSB Analytic

MSC: KN

63. Regulation of U.S. financial markets is primarily a function of the federal government; States do not regulate banks in any way.

ANS: F

DIF: 2

REF: Regulation of the Financial System

NAT: AACSB Analytic

MSC: KN

64. The SEC requires reports anytime an investor accumulates more than 5 percent of a company's outstanding stock

ANS: T

DIF: 2

REF: Regulation of the Financial System

NAT: AACSB Analytic

MSC: KN

65. The National Association of Securities Dealers (NASD) purpose is to ensure that brokers perform their basic functions honestly and fairly, under constant supervision.

ANS: T

DIF: 2

REF: Regulation of the Financial System

NAT: AACSB Analytic

MSC: KN

66. U.S. banks make few foreign investments due to regulatory restrictions.

ANS: F

DIF: 1

REF: The Financial System: A Global Perspective

NAT: AACSB Analytic

MSC: KN

67. Most nations do not have a central bank similar to the U.S. Federal Reserve.

ANS: F

DIF: 2

REF: The Financial System: A Global Perspective

NAT: AACSB Analytic

MSC: KN

68. Banks in other nations often respond to changes in the U.S. financial system by making similar changes in their own systems.

ANS: T

DIF: 2

REF: The Financial System: A Global Perspective

NAT: AACSB Analytic

MSC: KN

## Chapter 18—Financial Management

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### MATCHING

*Complete the following using the terms listed.*

- a. venture capitalists
  - b. private placements
  - c. factoring
  - d. capital investment analysis
  - e. debt capital
  - f. equity capital
  - g. financial plan
  - h. factor
  - j. private equity funds
  - k. marketable securities
  - l. financial manager
  - m. tender offer
  - n. trade credit
  - o. leverage
  - p. capital structure
  - q. asset intensity
  - r. bonds
1. Funds obtained through borrowing are \_\_\_\_\_.
  2. A(n) \_\_\_\_\_ is a document that specifies the funds a firm will need for a period of time, the time of inflows and outflows, and the most appropriate uses of funds.
  3. \_\_\_\_\_ are low-risk securities that either have short maturities or can easily be sold in secondary markets.
  4. \_\_\_\_\_ raise money from wealthy individuals and institutional investors, and invest these funds in promising firms.
  5. \_\_\_\_\_ are investment companies that raise funds from wealthy individuals and institutional investors and use those funds to make large investments in both public and privately held companies.
  6. A mix of a firm's debt and equity capital is \_\_\_\_\_.
  7. \_\_\_\_\_ consists of funds provided by the firm's owners when they reinvest earnings, make additional contributions, liquidate assets, issue stock, or raise capital.
  8. An offer made by an outside investor or firm to the target firm's shareholders is a \_\_\_\_\_.
  9. The bank or finance company a business sells its accounts receivable to is called a(n) \_\_\_\_\_.
  10. The technique of increasing the rate of return on an investment by financing it with borrowed funds is called \_\_\_\_\_.
  11. A(n) \_\_\_\_\_ is an executive who develops and implements the firm's financial plan and determines the most appropriate sources and uses of funds.
  12. Stocks or bonds that are sold exclusively to a small group of large investors are known as \_\_\_\_\_.
  13. \_\_\_\_\_ is extended by suppliers when a firm receives goods or services, agreeing to pay them at a later date.
  14. The process by which decisions are made regarding investments in long-lived assets is \_\_\_\_\_.
  15. Certificates of indebtedness sold to raise long-term funds for a corporation or government agency are known as \_\_\_\_\_.
  16. \_\_\_\_\_ is the amount of assets needed to generate a given level of sales.
  17. Selling receivables to another party for cash is \_\_\_\_\_.

1. ANS: E	DIF: 2	REF: Sources of Funds and Capital Structure
NAT: AACSB Analytic		MSC: KN
2. ANS: G	DIF: 2	REF: Financial Planning
NAT: AACSB Analytic		MSC: KN
3. ANS: K	DIF: 2	REF: Managing Assets
NAT: AACSB Analytic		MSC: KN
4. ANS: A	DIF: 2	REF: Sources of Long-Term Financing
NAT: AACSB Analytic		MSC: KN
5. ANS: J	DIF: 2	REF: Sources of Long-Term Financing
NAT: AACSB Analytic		MSC: KN
6. ANS: P	DIF: 2	REF: Sources of Funds and Capital Structure
NAT: AACSB Analytic		MSC: KN
7. ANS: F	DIF: 2	REF: Sources of Funds and Capital Structure
NAT: AACSB Analytic		MSC: KN
8. ANS: M	DIF: 2	REF: Mergers, Acquisitions, Buyouts, and Divestitures
NAT: AACSB Analytic		MSC: KN
9. ANS: H	DIF: 2	REF: Short-Term Funding Options
NAT: AACSB Analytic		MSC: KN
10. ANS: O	DIF: 2	REF: Sources of Funds and Capital Structure
NAT: AACSB Analytic		MSC: KN
11. ANS: L	DIF: 2	REF: The Role of the Financial Manager
NAT: AACSB Analytic		MSC: KN
12. ANS: B	DIF: 2	REF: Sources of Long-Term Financing
NAT: AACSB Analytic		MSC: KN
13. ANS: N	DIF: 2	REF: Short-Term Funding Options
NAT: AACSB Analytic		MSC: KN
14. ANS: D	DIF: 2	REF: Managing Assets
NAT: AACSB Analytic		MSC: KN
15. ANS: R	DIF: 2	REF: Sources of Long-Term Financing
NAT: AACSB Analytic		MSC: KN
16. ANS: Q	DIF: 2	REF: Financial Planning
MSC: KN		NAT: AACSB Analytic
17. ANS: C	DIF: 2	REF: Financial Planning
MSC: KN		NAT: AACSB Analytic

## ESSAY

1. Define each role in the hierarchy of financial management at a large firm.

ANS:

In many organizations, the top financial manager is called the chief financial officer (CFO). The CFO reports directly to the firm's chief executive officer (CEO). Right under the CFO are three senior executives: the controller (chief accounting manager), the treasurer (responsible for financing activities and shareholder relations), and the vice-president for financial management (prepares financial forecasts and analyzes investment decisions).

DIF: 2

REF: The Role of the Financial Manager

NAT: AACSB Analytic

MSC: KN

2. What is the purpose of a financial plan?

ANS:

A financial plan is a document that specifies the funds a firm will need for a period of time, the timing of inflows and outflows, and the most appropriate uses of funds. Financial plans are often built around the answers to three questions: (1) What funds will the firm require during a period of time? (2) How will the firm obtain the necessary funds? and (3) When will the firm need additional funds? A good financial plan also involves financial control -- a process of checking actual revenues and expenses and comparing them against forecasts.

DIF: 2  
MSC: KN

REF: Financial Planning NAT: AACSB Analytic

3. Describe the roles of the three managers that report to the CFO.

ANS:

These three executives are commonly called the *vice-president for financial management (or planning)*, the *treasurer*, and the *controller*. The vice-president for financial management or planning is responsible for preparing financial forecasts and analyzing major investment decisions, such as new products, new production facilities, and acquisitions. The treasurer is responsible for all of the company's financing activities, including cash management, tax planning and preparation, and shareholder relations. The controller is the chief accounting manager. The controller's functions include keeping the company's books, preparing financial statements, and conducting internal audits

DIF: 2 REF: The Role of the Financial Manager  
NAT: AACSB Analytic MSC: KN

4. Identify the major sources of equity capital.

ANS:

The major sources of equity capital include profits reinvested back into the firm, additional capital contributions by the firm's owners (including the exercise of stock options), contributions by venture capitalists, and the sale of new shares of stock to the public. A firm also obtains equity capital whenever it makes a profit.

DIF: 2 REF: Sources of Funds and Capital Structure NAT: AACSB Analytic  
MSC: KN

5. List the major sources of short-term and long-term funds.

ANS:

The major sources of short-term funds are trade credit, short-term loans, and commercial paper. The major sources of long-term funds are the public sale of stocks and bonds, private placements, and venture capital investments.

DIF: 2 REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic MSC: KN

6. What is leverage?

ANS:

Leverage is created by increasing the rate of return on funds invested through borrowed funds. As long as earnings exceed interest payments on borrowed funds, financial leverage allows a firm to increase the rate of return on its shareholders' investment. However, leverage also works in reverse. If earnings decline below the level of interest payments, shareholders will sustain a loss.

DIF: 2  
MSC: KN

REF: Sources of Funds and Capital Structure

NAT: AACSB Analytic

7. Explain the difference between an expansion decision and a replacement decision.

ANS:

An expansion decision involves decisions about offering new products or building or acquiring new production facilities. A replacement decision is one that considers whether to replace an existing asset with a new one. An expansion decision has more risk attached to it because there is less certainty when one is entering new markets or extending a product line. By comparison, replacement purchases have relatively low levels of risk since the decision to replace worn out technology/capital is usually a result of an analysis of the cost of replacement versus the productivity gains that will result from the investment. The key here is the level of risk that is attached to the decision.

DIF: 2  
MSC: AP

REF: Managing Assets

NAT: AACSB Reflective Thinking

8. What is an important determinant of a firm's dividend policy?

ANS:

The main determinant of a firm's dividend policy is its investment opportunities. Firms with more profitable investment opportunities often pay less in dividends than do firms with fewer such opportunities. Another important consideration is whether the firm has traditionally paid dividends and at what level. A firm that suddenly reduces or suspends its dividends risks sending a message that its financial situation may have deteriorated.

DIF: 2  
MSC: KN

REF: Sources of Funds and Capital Structure

NAT: AACSB Analytic

9. Why is commercial paper an attractive short-term financing option?

ANS:

Commercial paper is an attractive financing option because large amounts can be raised by selling commercial paper at rates that are generally less than those charged by banks. Commercial paper has been an attractive option because it allows for flexibility in borrowing. Large sums can be raised at short notice by firms that have outstanding credit scores. There are, however, several disadvantages in using such short-term debt. For example, during a period of high volatility such as we saw in late 2008, interest rates on commercial paper is backed only by the good name of the issuing corporation, a credit squeeze can leave borrowers with few lenders who are willing to take a risk on unsecured debt.

DIF: 2  
MSC: KN

REF: Short-Term Funding Options

NAT: AACSB Reflective Thinking

10. What is an LBO?

ANS:

LBO—leveraged buyout—is a transaction whereby public shareholders are bought out and the firm reverts to private status. LBOs are usually financed with large amounts of borrowed money. Firms that borrow heavily to fund LBOs often issue bonds that carry below investment grade ratings. As a result of the high degree of leverage, a key strategy is to cut staff, trim operations, and sell products or divisions to reduce the debt. If the acquirer is successful in streamlining operations, the private firm is resold in the public markets and the LBO investors reap the profits.

DIF: 2                      REF: Sources of Long-Term Financing      NAT: AACSB Analytic  
MSC: KN

11. Why do firms divest assets?

ANS:

Sometimes divestitures result from prior acquisitions that didn't meet expectations. In other cases, a firm makes a strategic decision to concentrate on its core businesses and decides to divest anything that falls outside this core. In addition, government regulators may require divestitures of certain assets as a condition for approving a merger.

DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures      NAT: AACSB  
Reflective Thinking      MSC: AP

**MULTIPLE CHOICE**

1. The financial manager for a typical corporation is responsible for \_\_\_\_\_.  
a. designing the accounting system  
b. determining the most appropriate sources and uses of funds  
c. gathering, recording, and reporting financial information  
d. preparing operating budgets for various departments

ANS: B                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

2. The senior financial manager has the title of \_\_\_\_\_.  
a. chief financial officer  
b. chief operations officer  
c. treasurer  
d. controller

ANS: A                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

3. Which of the following individuals has the direct responsibility for shareholder relations?  
a. Controller  
b. Chief financial officer  
c. Chief executive officer  
d. Treasurer

ANS: D                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

4. In the typical firm, the \_\_\_\_\_ is the chief accounting manager.  
a. chief financial officer  
b. treasurer

- c. controller
- d. chief executive officer

ANS: C                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

5. Jasmine works in the financial division of her company and is responsible for preparing monetary forecasts and analyzing major investment decisions. What is Jasmine's title?
- a. Treasurer
  - b. CFO
  - c. Vice President for Financial Management
  - d. Controller

ANS: C                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Reflective Thinking                      MSC: AP

6. Which of the following is the best definition of financial risk?
- a. Risk is the possibility that an investment will lose money.
  - b. Risk is the possibility that an investment will earn a negative return.
  - c. Risk is the possibility that an investment's actual return will be less than its expected return.
  - d. Risk is the uncertainty regarding the gain or loss from an investment.

ANS: D                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Reflective Thinking                      MSC: AP

7. The gain or loss that results from an investment over a specified period of time is known as \_\_\_\_\_.  
a. risk  
b. return  
c. uncertainty  
d. expected value

ANS: B                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

8. The process that periodically checks actual revenues and expenses against forecast values is \_\_\_\_\_.  
a. asset management  
b. budgeting  
c. financial control  
d. financial planning

ANS: C                      DIF: 2                      REF: Financial Planning  
NAT: AACSB Analytic                      MSC: KN

9. A(n) \_\_\_\_\_ is a document that specifies the funds a firm will need for a period of time, the timing of inflows and outflows, and the most appropriate sources and uses of funds.  
a. asset management plan  
b. budget  
c. strategic plan  
d. financial plan

ANS: D                      DIF: 1                      REF: Financial Planning  
NAT: AACSB Analytic                      MSC: KN

10. A company's financial plan should answer all of the following questions EXCEPT \_\_\_\_\_.  
a. What is the contingency plan in case of bankruptcy?



- b. What funds will the firm require during the appropriate period of operations?
- c. How will it obtain the necessary money?
- d. When will it need more cash?

ANS: A                      DIF: 2                      REF: Financial Planning  
NAT: AACSB Analytic                      MSC: KN

11. All of the following are considered to be marketable securities EXCEPT \_\_\_\_\_.
- a. treasury bills
  - b. commercial paper
  - c. repurchase agreements
  - d. bonds

ANS: D                      DIF: 2                      REF: Managing Assets  
NAT: AACSB Analytic                      MSC: KN

12. All of the following are examples of debt capital EXCEPT \_\_\_\_\_.
- a. bank loans
  - b. company profits
  - c. commercial paper
  - d. bonds

ANS: B                      DIF: 1                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

13. Kaitlyn's company needs to obtain funds in order to keep the business going; however, she does not want stockholders influencing the direction of her company. What type of financing should Kaitlyn acquire?
- a. Equity capital
  - b. Combination of debt and equity capital
  - c. Angel investor
  - d. Debt capital

ANS: D                      DIF: 3                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Reflective Thinking                      MSC: AP

14. Central Valley Pharmaceuticals needs to raise funds to buy new production equipment. The financial manager would probably suggest that his company raise debt capital by \_\_\_\_\_.
- a. using accumulated earnings
  - b. selling stock
  - c. selling marketable securities
  - d. borrowing money from a bank

ANS: D                      DIF: 2                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Reflective Thinking                      MSC: AP

15. Grace is the financial manager for Empire State Fabrication and has decided to raise additional funds for the company by raising equity capital. She might do so by \_\_\_\_\_.
- a. establishing a line of credit with a local bank
  - b. selling marketable securities
  - c. persuading existing owners to contribute additional funds
  - d. selling a bond

ANS: C                      DIF: 2                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Reflective Thinking                      MSC: AP

16. All of the following are sources of short-term funds EXCEPT \_\_\_\_\_.  
a. trade credit  
b. bank loans  
c. commercial paper  
d. privately placed bonds

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Short-Term Funding Options  
MSC: KN

17. A company would most likely finance \_\_\_\_\_ using short-term sources.  
a. inventory  
b. buildings  
c. another company  
d. machinery

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Short-Term Funding Options  
MSC: AP

18. When a firm receives goods or services from a supplier and agrees to pay for them at a later date, this arrangement is called \_\_\_\_\_.  
a. a short-term loan  
b. a repurchase agreement  
c. trade credit  
d. commercial credit

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Short-Term Funding Options  
MSC: KN

19. Which of the following assets would a firm most likely finance using long-term sources?  
a. Inventory  
b. Accounts receivable  
c. Marketable securities  
d. Another company

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Sources of Long-Term Financing  
MSC: KN

20. \_\_\_\_\_ would be the LEAST likely to obtain a private placement.  
a. Commercial banks  
b. Pension fund managers  
c. Small individual investors  
d. Life insurance companies

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Sources of Long-Term Financing  
MSC: KN

21. Most private placements are \_\_\_\_\_.  
a. U.S. government securities  
b. corporate debt issues  
c. corporate equity issues  
d. municipal debt issues

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Sources of Long-Term Financing  
MSC: KN

22. Leverage \_\_\_\_\_ the return to shareholders and \_\_\_\_\_ the risk of their investment.

- a. lowers; lowers
- b. lowers; increases
- c. increases; lowers
- d. increases; increases

ANS: D                      DIF: 3  
 NAT: AACSB Analytic

REF: Sources of Funds and Capital Structure  
 MSC: KN

23. Borrowing money \_\_\_\_\_.  
 a. creates leverage  
 b. increases financial flexibility  
 c. decreases risk to shareholders  
 d. decreases expected returns to shareholders due to interest payments

ANS: A                      DIF: 2  
 NAT: AACSB Analytic

REF: Sources of Funds and Capital Structure  
 MSC: KN

24. Mitch raises money from wealthy individuals and institutional investors for a variety of promising new companies. In exchange, he will become part owner of those businesses. Mitch is a(n) \_\_\_\_\_.  
 a. underwriter  
 b. venture capitalist  
 c. entrepreneur  
 d. angel investor

ANS: B                      DIF: 2  
 NAT: AACSB Reflective Thinking

REF: Sources of Long-Term Financing  
 MSC: AP

25. Short-term assets are expected to be converted into cash within \_\_\_\_\_.  
 a. a week  
 b. six months  
 c. a month  
 d. a year

ANS: D                      DIF: 2  
 AACSB Reflective Thinking

REF: Short-Term Funding Options                      NAT:  
 MSC: KN

26. The sovereign wealth fund is a variation of \_\_\_\_\_.  
 a. the private equity fund  
 b. debt capital  
 c. market securities  
 d. private placements

ANS: A                      DIF: 2  
 AACSB Reflective Thinking

REF: Sources of Long-Term Financing                      NAT:  
 MSC: AP

27. The term used to describe the benefits produced by a merger or acquisition is \_\_\_\_\_.  
 a. partnership  
 b. leverage  
 c. synergy  
 d. profit

ANS: C                      DIF: 1  
 NAT: AACSB Analytic

REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 MSC: KN

28. Two types of divestitures are \_\_\_\_\_.  
 a. sell-offs and trade-offs

- b. trade-offs and spin-offs
- c. buy-offs and spin-offs
- d. sell-offs and spin-offs

ANS: D                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 NAT: AACSB Analytic                      MSC: KN

29. A financial plan addresses all of the following EXCEPT:
- a. where will funds be obtained
  - b. how much stock will the company issue
  - c. what funds will be required during the planning period
  - d. when will funds be needed

ANS: B                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 NAT: AACSB Analytic                      MSC: KN

30. Major current assets include all of the following EXCEPT:
- a. cash
  - b. marketable securities
  - c. stockholders' equity
  - d. accounts receivable

ANS: C                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 OBJ: AACSB Reflective Thinking                      MSC: AP

31. A(n) \_\_\_\_\_ is a transaction in which one company buys another.
- a. synergy
  - b. take-over
  - c. acquisition
  - d. merger

ANS: C                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 NAT: AACSB Analytic                      MSC: KN

32. \_\_\_\_\_ are investment companies that raise funds from wealthy individuals and institutional investors and use the funds to make investments in both public and private companies.
- a. Venture capitalists
  - b. Private placements
  - c. Hedge funds
  - d. Private equity funds

ANS: D                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
 NAT: AACSB Analytic                      MSC: KN

## TRUE/FALSE

1. The chief financial officer of most firms is also the treasurer.

ANS: F                      DIF: 1                      REF: The Role of the Financial Manager  
 NAT: AACSB Analytic                      MSC: KN

2. It's highly unlikely that a CFO will become a CEO.

ANS: F                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

3. In most firms the controller is the chief accounting manager.

ANS: T                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

4. Financial managers are responsible for increasing profits to shareholders.

ANS: T                      DIF: 2                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

5. Virtually all financial decisions involve a tradeoff between risk and return.

ANS: T                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

6. Risk is defined as the uncertainty of a profit or a loss.

ANS: T                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

7. Investments that promise the highest returns tend to involve the most risk.

ANS: T                      DIF: 1                      REF: The Role of the Financial Manager  
NAT: AACSB Analytic                      MSC: KN

8. Financial plans deal with sources of funds, not the expenditure of funds.

ANS: F                      DIF: 2                      REF: Financial Planning  
NAT: AACSB Analytic                      MSC: KN

9. Treasury bills are short-term securities issued by the United States government.

ANS: T                      DIF: 1                      REF: Managing Assets  
NAT: AACSB Analytic                      MSC: KN

10. Equity capital represents funds obtained from banks and other lenders.

ANS: F                      DIF: 1                      REF: Managing Assets  
NAT: AACSB Analytic                      MSC: KN

11. The exercise of employee stock options is a source of equity capital for a business.

ANS: T                      DIF: 2                      REF: Managing Assets  
NAT: AACSB Analytic                      MSC: KN

12. Debt capital is always preferable to equity capital.

ANS: F                      DIF: 1                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

13. When venture capitalists invest in a start-up business, they contribute debt capital.

ANS: F                      DIF: 2                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

14. Both debt and equity capital have set maturities.

ANS: F                      DIF: 2                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

15. Short-term sources of funds are loans that are repaid within one year.

ANS: T                      DIF: 1                      REF: Short-Term Funding Options  
NAT: AACSB Analytic                      MSC: KN

16. Firms often rely on short-term sources of funds to pay for large, permanent assets, such as machinery and buildings.

ANS: F                      DIF: 1                      REF: Short-Term Funding Options  
NAT: AACSB Analytic                      MSC: KN

17. Trade credit is not a major source of short-term financing.

ANS: F                      DIF: 2                      REF: Short-Term Funding Options  
NAT: AACSB Analytic                      MSC: KN

18. All short-term bank loans are secured, meaning that the borrower pledges specific assets as collateral.

ANS: F                      DIF: 2                      REF: Short-Term Funding Options  
NAT: AACSB Analytic                      MSC: KN

19. In a typical year, about one-third of all new corporate debt issues are privately placed.

ANS: T                      DIF: 3                      REF: Sources of Long-Term Financing  
NAT: AACSB Analytic                      MSC: KN

20. Whenever a company borrows money it creates leverage.

ANS: T                      DIF: 1                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

21. Leverage increases the potential return to a firm's shareholders, but also reduces the risk of their investment because shareholders have contributed less capital.

ANS: F                      DIF: 3                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Reflective Thinking                      MSC: AP

22. Increasing leverage decreases management's flexibility in future financing decisions.

ANS: T                      DIF: 2                      REF: Sources of Funds and Capital Structure  
NAT: AACSB Analytic                      MSC: KN

23. Bond sales tend to be higher when interest rates are lower.

ANS: T                      DIF: 2                      REF: Sources of Long-Term Financing  
NAT: AACSB Reflective Thinking                      MSC: AP

24. Unlike private equity funds, which tend to focus on small, start-up companies, venture capital funds invest in all types of businesses, including mature ones.

ANS: F                      DIF: 2                      REF: Sources of Long-Term Financing  
NAT: AACSB Analytic                      MSC: KN

25. Hedge funds account for about 10% of all stock exchange activity.

ANS: F                      DIF: 2                      REF: Sources of Long-Term Financing  
NAT: AACSB Reflective Thinking                      MSC: AP

26. When the buyer makes what is known as a tender offer for the target's shares, it specifies a price and the form of payment.

ANS: T                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
NAT: AACSB Reflective Thinking                      MSC: AP

27. Trade credit is relatively easy to obtain and costs nothing unless a supplier offers a cash discount.

ANS: T                      DIF: 2                      REF: Short-Term Funding Options  
NAT: AACSB Reflective Thinking                      MSC: AP

28. Public sales can vary substantially from year to year depending on the conditions in the financial markets.

ANS: T                      DIF: 1                      REF: Sources of Long-Term Financing                      NAT:  
AACSB Reflective Thinking                      MSC: KN

29. Chemical manufacturer DuPont has approximately \$0.94 in assets for every dollar in sales. According to asset intensity for every \$100 increase in sales, the firm would need about \$94 of additional assets.

ANS: T                      DIF: 3                      REF: Financial Planning                      NAT: AACSB Reflective  
Thinking                      MSC: AP

30. The major purpose of cash is to pay day-to-day expenses.

ANS: T                      DIF: 1                      REF: Managing Assets                      NAT: AACSB Analytic  
MSC: KN

31. Acquisitions are the opposite of mergers, in which companies sell assets such as subsidiaries, product lines, or production facilities.

ANS: F                      DIF: 2                      REF: Mergers, Acquisitions, Buyouts, and Divestitures  
NAT: AACSB Reflective Thinking                      MSC: AP

32. Corporate debt securities are the most common type of security sold privately.

ANS: T                      DIF: 2  
AACSB Reflective Thinking

REF: Sources of Long-Term Financing      NAT:  
MSC: AP