

**MULTIPLE CHOICE. (4 Points Each) Choose the one alternative that best completes the statement or answers the question.**

- 1) According to research in this area, it is more likely that an entrepreneur will get a new business idea through a \_\_\_\_\_ relationship than the alternatives. 1) \_\_\_\_\_  
A) lateral-tie  
B) weak-tie  
C) moderate-tie  
D) strong-tie  
E) vertical-tie
- 2) Which of the following is not one of the five common myths about entrepreneurs? 2) \_\_\_\_\_  
A) Entrepreneurs should be young and energetic.  
B) Entrepreneurs are moderate risk takers.  
C) Entrepreneurs are born not made.  
D) Entrepreneurs love the spotlight.  
E) Entrepreneurs are tenacious.
- 3) The five industry types discussed in the book include: 3) \_\_\_\_\_  
A) launching, consolidated, plateaued, mature, and worldwide  
B) emerging, fragmented, mature, declining, and global  
C) launching, fragmented, leveled-off, declining, and global  
D) emerging, climbing, mature, declining, and worldwide  
E) climbing, peaking, plateaued, declining, and international
- 4) The three primary reasons that people become entrepreneurs and start their own firms are to: 4) \_\_\_\_\_  
A) be their own boss, pursue their own ideas, and realize financial rewards  
B) take big risks, be their own boss, and do what they were "born" to do  
C) take advantage of government subsidies, pursue their own ideas, and realize financial rewards  
D) do what they were "born" to do, be their own boss, and gain prestige  
E) gain prestige, realize financial rewards, and eliminate risk in their lives
- 5) Which of the following statements is incorrect regarding the personal characteristics of entrepreneurs? 5) \_\_\_\_\_  
A) Several studies show that prior experience in an industry actually blinds an entrepreneur to the recognition of new opportunities in the same industry.  
B) Some people think that entrepreneurs have a "sixth sense" that allows them to see opportunities that others miss.  
C) Creativity is the process of generating novel or useful ideas.  
D) The extent and depth of an individual's social network affects opportunity recognition.  
E) The corridor principle states that once an entrepreneur starts a firm, he or she begins a journey down a path where "corridors" leading to new venture opportunities become apparent.
- 6) A(n) \_\_\_\_\_ is a group of firms producing a similar product or service, such as soft drinks, electronic games, or computers. 6) \_\_\_\_\_  
A) sector                      B) industry                      C) cluster                      D) division                      E) network

- 7) Paul Hempken just spoke to an investor, who is interested in his business idea. Paul offered to send the investor a copy of his full business plan, but the investor asked for a short overview of the business plan instead. What portion of his business plan should Paul send the investor? 7) \_\_\_\_\_
- A) company description
  - B) elevator pitch
  - C) operations plan
  - D) executive summary
  - E) marketing plan
- 8) According to the Global Entrepreneurship Monitor (GEM) 2007 study, the majority of people in high-income countries are drawn to entrepreneurship: 8) \_\_\_\_\_
- A) as a result of government incentives
  - B) because an important role model was an entrepreneur
  - C) to take advantage of an attractive opportunity
  - D) due to lack of career prospects
  - E) to gain prestige
- 9) Some industries, like the athletic shoe industry, are dominated by a small number of firms with strong brands. These industries are difficult to break into without spending heavily on advertising. The barrier to entry that the firms in these types of industries have erected is referred to as: 9) \_\_\_\_\_
- A) cost advantages independent of size
  - B) access to distribution channels
  - C) government and legal barriers
  - D) product differentiation
  - E) capital requirements
- 10) According to the textbook, a business plan is best described as a(n): 10) \_\_\_\_\_
- A) narrative description of a new business
  - B) agreement
  - C) contract
  - D) marketing initiative
  - E) budget
- 11) \_\_\_\_\_ depict relationships between items on a firm's financial statements. 11) \_\_\_\_\_
- A) Financial proportions
  - B) Fiscal relations
  - C) Financial ratios
  - D) Monetary balances
  - E) Fiscal projections
- 12) According to Chapter 1, investors often cite the \_\_\_\_\_ as their most important criterion in the decision to fund new ventures. 12) \_\_\_\_\_
- A) strength of the business idea
  - B) strength of the new venture's marketing plan
  - C) financial position of the new venture
  - D) strength of the industry the new firm is entering
  - E) strength of the entrepreneur

- 13) According to the textbook, the number one reason that people become entrepreneurs is to: 13) \_\_\_\_\_
- A) continue a family tradition
  - B) gain prestige
  - C) be their own boss
  - D) pursue their own ideas
  - E) realize financial rewards
- 14) According to Chapter 1, a sentiment that venture capitalists often express is that: 14) \_\_\_\_\_
- A) the strength of the entrepreneur and the strength of the business idea are of equal importance
  - B) they would rather fund a strong entrepreneur with a mediocre business idea than fund a strong business idea with a mediocre entrepreneur
  - C) they would never fund a strong entrepreneur with a weak business idea
  - D) a new venture's marketing plan is more important than either the strength of the entrepreneur or the strength of the business idea
  - E) they would rather fund a strong business idea with a mediocre entrepreneur than fund a strong entrepreneur with a mediocre business idea
- 15) Which of the following statements regarding business success (or failure) rates is correct? 15) \_\_\_\_\_
- A) After four years, 25 percent of new businesses are still open.
  - B) After four years, 50 percent of new businesses are still open.
  - C) Nine out of ten businesses fail within the first four years.
  - D) After four years, 15 percent of new businesses are still open.
  - E) Two out of three businesses fail within the first four years.
- 16) A business plan is important for two reasons: it forces the founding team to systematically think through every aspect of their new venture and: 16) \_\_\_\_\_
- A) it is a budget
  - B) it is a financial analysis
  - C) it communicates the merits of a new venture to outsiders, such as investors and bankers
  - D) it is a public relations document that can be used to promote the firm
  - E) it is a contract that is signed by the founders of the firm
- 17) Which of the following is not an example of a social force? 17) \_\_\_\_\_
- A) increasing number of people going back to school and/or retraining for new jobs
  - B) emphasis on clean forms of energy including wind, solar, biofuels, and others
  - C) increased diversity of the workforce
  - D) changes in interest rates
  - E) aging of baby boomers
- 18) \_\_\_\_\_ is a company's ability to meet its short-term financial obligations. 18) \_\_\_\_\_
- A) Effectiveness
  - B) Stability
  - C) Efficiency
  - D) Profitability
  - E) Liquidity

- 19) Which financial statement records all of a firm's revenues and expenses for a given period and shows whether the firm is making a profit or experiencing a loss? 19) \_\_\_\_\_
- A) statement of cash flows
  - B) income statement
  - C) owner's equity statement
  - D) forecast
  - E) balance sheet
- 20) Which of the following was not identified as one of the four main financial objectives of a firm? 20) \_\_\_\_\_
- A) timeliness
  - B) efficiency
  - C) liquidity
  - D) stability
  - E) profitability
- 21) According to the textbook, opportunities are: 21) \_\_\_\_\_
- A) easy to spot in the manufacturing sector but tough to spot in the service sector
  - B) easy to spot
  - C) neither easy nor tough to spot
  - D) easy to spot in fast growing industries but tough to spot in slow growing industries
  - E) tough to spot
- 22) In general, industries are more attractive when: 22) \_\_\_\_\_
- A) the majority of the threats are high
  - B) the threat of each of the five forces is low
  - C) the majority of the threats are low
  - D) the threat of each of the forces is neutral—neither low nor high
  - E) the threat of each of the five forces is high
- 23) According to the textbook, the four characteristics of successful entrepreneurs are: 23) \_\_\_\_\_
- A) on the cutting edge of technological change, forward thinking, tenacity despite failure, and product/customer focus
  - B) passion for the business, tenacity despite failure, product/customer focus, and execution intelligence
  - C) passion for the business, seeks recognition, young and energetic, and execution intelligence
  - D) young and energetic, passion for the business, product/customer focus, and seeks recognition
  - E) passion for the business, on the cutting edge of technological change, very charismatic, and tenacity despite failure
- 24) The primary opportunity existing for startups in emerging industries is to: 24) \_\_\_\_\_
- A) win customers by placing an emphasis on service and process innovation
  - B) capture a first-mover advantage
  - C) pursue a niche strategy, which focuses on a narrow segment of the industry that might be encouraged to grow through product or process innovation
  - D) consolidate the industry and establish industry leadership as a result of doing so
  - E) pursue a cost reduction strategy, which is accomplished through achieving lower costs than industry incumbents through process innovation

- 25) Which of the following is the main purpose for writing a business plan? 25) \_\_\_\_\_
- A) The plan helps the company develop a "road map" to follow.
  - B) The plan introduces potential investors and other stakeholders to the business opportunity.
  - C) Both A and B are equally important.
  - D) Neither A nor B captures the true purpose of a business plan.
  - E) Reason A is the most important for experienced entrepreneurs and reason B is the most important for inexperienced entrepreneurs.

**TRUE/FALSE. (3 Points each) Write 'T' if the statement is true and 'F' if the statement is false.**

- 26) Several studies have shown that prior experience in an industry helps entrepreneurs recognize business opportunities. 26) \_\_\_\_\_
- 27) It is more likely that an entrepreneur will get a new business idea through a strong-tie than a weak-tie relationship. 27) \_\_\_\_\_
- 28) The income statement records all the revenues and expenses for a given period and shows whether the firm is making a profit or is experiencing a loss. 28) \_\_\_\_\_
- 29) Business trends include economic trends, social trends, technological advances, and political and regulatory changes. 29) \_\_\_\_\_
- 30) Many new businesses are successful by taking advantage of fads. 30) \_\_\_\_\_
- 31) Historical financial statements reflect past performance and are usually prepared on a quarterly and annual basis. 31) \_\_\_\_\_
- 32) Entrepreneurship is the process by which individuals pursue opportunities within the constraints of the resources they control. 32) \_\_\_\_\_
- 33) The best industry to enter is an industry where the threat of each of Porter's five-forces is low. 33) \_\_\_\_\_
- 34) The four forms of feasibility analysis include: product/service feasibility, industry/target market feasibility, organizational feasibility, and financial feasibility. 34) \_\_\_\_\_
- 35) The executive summary is a lengthy overview of the entire business plan. 35) \_\_\_\_\_

- 1) B
- 2) E
- 3) B
- 4) A
- 5) A
- 6) B
- 7) D
- 8) C
- 9) D
- 10) A
- 11) C
- 12) E
- 13) C
- 14) B
- 15) B
- 16) C
- 17) D
- 18) E
- 19) B
- 20) A
- 21) E
- 22) B
- 23) B
- 24) B
- 25) C
- 26) TRUE
- 27) FALSE
- 28) TRUE
- 29) FALSE
- 30) FALSE
- 31) TRUE
- 32) FALSE
- 33) TRUE
- 34) TRUE
- 35) FALSE