

***Business Essentials, 12e (Ebert/Griffin)***

**Chapter 3 Entrepreneurship, New Ventures, and Business Ownership**

1) Which entity is defined as independent and has little influence on its market?

- A) Corporation
- B) Joint venture
- C) Small business
- D) Partnership
- E) Government agency

Answer: C

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

2) The U.S. Department of Commerce considers a business "small" if it has fewer than how many employees?

- A) 10
- B) 50
- C) 100
- D) 500
- E) 1,500

Answer: D

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

3) Which of the following industry groups is the fastest growing segment of small business enterprise?

- A) Manufacturing
- B) Wholesaling
- C) Retailing
- D) Transportation
- E) Services

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

4) Which of the following types of venue is favored by small-business retailers?

- A) Superstore
- B) Catalog showroom
- C) Specialty shop
- D) Department store
- E) Studio workroom

Answer: C

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

5) Why is it difficult to compare relative job growth for different-sized businesses?

- A) Sourcing up-to-date employment figures is difficult.
- B) Many small businesses experience rapid unreported growth.
- C) Spheres of influence overlap between the small and big business sectors.
- D) Staff size of small businesses tends to change faster than staff size of big businesses.
- E) It is hard to determine the cutoff point at which a small business becomes a large business.

Answer: E

Difficulty: Difficult

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

6) Which of the following can assist a small business and helps to determine standards based on industry?

- A) The U.S. Department of Commerce
- B) The Small Business Administration
- C) A franchise
- D) Venture capitalist
- E) The Small Business Development Center

Answer: B

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

7) When an investor is not interested in owning their own business, why do they need to understand entrepreneurship?

- A) To understand why someone would want to work so hard for a small return
- B) To determine the key characteristics of success
- C) To understand how to convert a great idea to a profitable idea
- D) To assess the market potential for up-and-coming businesses
- E) To learn how to set up a business plan

Answer: D

Difficulty: Difficult

AACSB: Analytical Thinking

Quest. Category: Application

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

8) In a small business, who determines prices for wholesalers and customers?

- A) Customers
- B) Franchise owners
- C) Market forces
- D) Small business administration
- E) Small business owners

Answer: C

Difficulty: Difficult

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

9) The contribution a small business on the U.S. economy is measured based on its impact to which economic systems?

- A) Bank loans, and contributions to big business
- B) International trade, interest rates, and the service industry
- C) Bank loans and innovation
- D) The service industry, the stock market, and job creation
- E) Job creation, contributions to big business, and innovation

Answer: E

Difficulty: Difficult

AACSB: Analytical Thinking

Quest. Category: Analytical

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

10) The Small Business Administration is the government agency charged with owning small businesses.

Answer: FALSE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Application

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

11) Small businesses produce more patents per employee than large patenting firms.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Application

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

12) Most businesses in the United States are large businesses with more than 500 employees.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

13) Major innovations are most likely to come from large corporations.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

14) The Small Business Administration (SBA) may consider a business with as many as 1500 employees to be small as long as it has low annual revenues.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

15) How is the U.S. economy affected by small businesses?

Answer: Small businesses affect the U.S. economy through job creation and innovation and by making products for and selling products made by big businesses. Small businesses are an important source of new jobs in the United States. Innovations are as likely to come from small businesses as big businesses. Finally, most of the products made by big businesses are sold to consumers by small businesses. Big businesses often depend on small businesses as suppliers as well. By creating jobs, fostering innovation, and providing goods and services, small businesses have a positive effect on the U.S. economy.

Difficulty: Difficult

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.1: Define small business, discuss its importance to the U.S. economy, and explain popular areas of small business.

16) Which of the following BEST defines those who assume the risk of business ownership?

- A) Entrepreneurs
- B) Customers
- C) Corporate partners
- D) The Small Business Administration
- E) Banks

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

17) What is the process of seeking business opportunities under conditions of risk?

- A) Investment
- B) Entrepreneurship
- C) Leadership
- D) Diversification
- E) Growth

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

18) What term is most closely associated with enterprises that pursue entrepreneurship with the goal of independence from working for someone else with a reasonable degree of financial security?

- A) Vision
- B) New ventures
- C) Small business
- D) LLC
- E) Dominance

Answer: C

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

19) When an entrepreneur has the goals of growth and expansion, with the vision of turning the business into a large business, what term is used when referring to the business?

- A) Visionary
- B) Small Business
- C) Diversification
- D) Start-up
- E) Expansionist

Answer: D

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

20) People who assume the risk of business ownership with a primary goal of growth and expansion are called entrepreneurs.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

21) Most successful entrepreneurs have a strong desire to be their own bosses.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Application

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

22) Explain entrepreneurship and describe key entrepreneurial characteristics.

Answer: Entrepreneurs are people who assume the risk of business ownership. Entrepreneurship is the process of seeking business opportunities under conditions of risk. Some entrepreneurs have a goal of independence and financial security, whereas others want to launch a new venture that can be grown into a large business. Most successful entrepreneurs are resourceful and concerned for customer relations. They have a strong desire to be their own bosses and can handle ambiguity and surprises. Today's entrepreneur is often an open-minded leader who relies on networks, business plans, and consensus and is just as likely to be female as male. Finally, although successful entrepreneurs understand the role of risk, they do not necessarily regard what they do as being risky.

Difficulty: Easy

AACSB: Reflective Thinking

Quest. Category: Concept

LO: 3.2: Explain entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.

23) What does an entrepreneur use to summarize his or her business strategy for a proposed new venture?

- A) Success chart
- B) Director's guideline
- C) Financial blueprint
- D) Business plan
- E) Balance sheet

Answer: D

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

24) What is considered to be a significant disadvantage of owning a franchise?

- A) Start-up costs
- B) Operational guidelines
- C) Difficulty obtaining loans
- D) Double taxation
- E) Competition

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

25) What is the MOST important source of money for new business start-ups?

- A) Banks
- B) The SBA
- C) Personal resources
- D) Government grants
- E) Venture capital

Answer: C

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

26) Who constitutes the membership of SCORE?

- A) Retired executives
- B) Venture capitalists
- C) Company officers
- D) Commercial lenders
- E) Successful entrepreneurs

Answer: A

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

27) What does a start-up company need in order to estimate the required size of a plant, store, or office, inventory levels, and size of staff?

- A) Sales forecast
- B) Tax estimate
- C) Business objective
- D) Stock options
- E) Funding source

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Application

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.



28) What is the major drawback of accepting venture capital?

- A) Sharing company control
- B) Having to pay high interest rates
- C) Limiting expansion
- D) Facing a short repayment period
- E) Having to write proposals

Answer: A

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Analytical

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

29) Which of the following are groups of small investors seeking to make profits on companies with rapid growth potential?

- A) Community banks
- B) Venture capital companies
- C) Equity managers
- D) Government securities dealers
- E) Stock brokers

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

30) Which of the following is federally licensed to borrow money from the Small Business Administration to invest in or lend to small businesses?

- A) SCORE
- B) SBICs
- C) SBDC
- D) FDIC
- E) SEC

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

31) Which of the following helps entrepreneurs gain skills that are essential for running a business?

- A) ESOP
- B) SBIC
- C) SEC
- D) LLC
- E) SBA

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

32) Which distinctive competency must an entrepreneur identify when attempting to enter a market segment that is not currently being exploited?

- A) The ability to identify new markets
- B) The ability to identify niche markets
- C) The ability to differentiate themselves from others in the market
- D) The ability to gauge prices to get the highest return without driving away customers
- E) The ability to move quickly to take advantage of new opportunities

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

33) What is first mover advantage?

- A) The concept that the first in the market will make the most money
- B) The concept that a firm who exploits an opportunity before others has an advantage
- C) The concept that there is an advantage in leaving a market when it becomes flooded
- D) The concept that large organizations cannot take advantage of an opportunity as quickly as an entrepreneur
- E) The concept that there is more risk being first, but also more reward, if successful

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

34) What is the first step in becoming an entrepreneur?

- A) Deciding to proceed
- B) Formulating a business plan
- C) Identifying distinctive competencies
- D) Searching for capital to invest
- E) Implementing plans and opening

Answer: C

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

35) Which key element of a business plan will determine inventory, size of space required, and number of employees needed?

- A) Financial planning
- B) Comparing existing businesses
- C) Sales forecasting
- D) Setting goals and objectives
- E) Identifying strategies and how to implement them

Answer: C

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

36) What is the advantage to starting a business from scratch instead of buying an existing business?

- A) There is a proven ability to attract customers.
- B) Profit is generated sooner.
- C) There is a stronger relationship with lenders and other stakeholders.
- D) There are no ill-effects from the previous owner.
- E) There is a clearer picture of what to expect in terms of start-up.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

37) Where can a new business owner go to seek help and learn from other institutions and disciplines?

- A) The Service Corps of Retired Executives (SCORE)
- B) The Small Business Development Center (SBDC)
- C) Small business investment companies (SBICs)
- D) Venture capitalist
- E) Minority Enterprise Small Business Investment Companies (MESBICs)

Answer: B

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

38) A business plan demonstrates how an entrepreneur's business strategy will be implemented.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

39) Loans are the most important sources of money for new businesses.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

40) Lending institutions are more likely to help finance the purchase of an existing business rather than the start-up of a business from scratch.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

41) A group of small investors who invest money in companies in return for partial ownership is known as a small-business development company.

Answer: FALSE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

42) Small-business investment companies (SBICs) may be sponsored by the federal government.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

43) The Small Business Development Center provides micro loan programs for members.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

44) Discuss four sources of financing for starting up a small business.

Answer: Financing for starting up a new business may come from personal resources, bank loans, venture capital firms, or small-business investment companies (SBICs). The most important source of financing for a small business is the owner's personal resources. Bank loans are a second source of financing. Venture capital firms invest money in a business in return for stock. These firms are groups of small investors seeking to make profits on companies with rapid growth potential. SBICs take a more balanced approach in their choices than do venture capital firms. SBICs are federally licensed to borrow money from the SBA to invest in or lend to small businesses. Financing for starting up a new business may come from personal resources, bank loans, venture capital firms, or SBICs.

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Synthesis, Concept

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

45) Why might an entrepreneur wish to purchase an existing business rather than start one from scratch?

Answer: An entrepreneur may wish to purchase an existing business because of an increased chance for success. An existing business will have established working relationships with lenders, suppliers, and the community. The track record of an existing business gives potential buyers a much clearer picture of what to expect than any estimate of new business prospects. The advantage of buying an existing business is better chances of success, as business relationships have already been established and past records give an indication of future business possibilities.

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Analytical

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

46) What are the advantages and disadvantages for a franchisee?

Answer: The advantages of franchising include access to managerial and financial help, the benefits of the selling corporation's expertise and experience, and reduced chances of failure. The disadvantages of franchising include significant start-up costs and continued obligations to contribute a percentage of sales to parent corporations. Advantages include access to managerial and financial help and the benefits of the selling corporation's expertise and experience, which can support increased chances of success. The disadvantages include significant start-up costs and ongoing commitments to contribute a percentage of sales to parent corporations.

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Synthesis

LO: 3.3: Describe distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.

47) What is the MOST effective way for an entrepreneur to become a competent manager?

- A) Working alone
- B) Relying on luck
- C) Getting a college degree
- D) Being open to opportunities
- E) Working for a successful company first

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

48) Which of the following represents the fastest-growing segment of minority business ownership?

- A) African Americans
- B) Asians
- C) Hispanics
- D) Pacific Islanders
- E) Europeans

Answer: A

Difficulty: Easy

AACSB: Diverse and Multicultural Work Environments

Quest. Category: Concept

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

49) Which of the following is the MOST significant recent trend in small-business start-ups?

- A) Entrepreneurs who cross over from big business
- B) Increased opportunities for minorities
- C) Increased opportunities for women
- D) Emergence of e-commerce
- E) Global economic downturn

Answer: D

Difficulty: Moderate

AACSB: Information Technology

Quest. Category: Concept

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

50) Which of the following factors MOST contributes to small business failure?

- A) Managerial incompetence or inexperience
- B) Bad product design
- C) Legal problems
- D) Time spent raising capital
- E) Personnel issues

Answer: A

Difficulty: Moderate

AACSB: Diverse and Multicultural Work Environments

Quest. Category: Application

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

51) A new business should have enough capital to operate at least how many months without earning a profit?

- A) 1
- B) 2
- C) 4
- D) 6
- E) 9

Answer: D

Difficulty: Moderate

AACSB: Diverse and Multicultural Work Environments

Quest. Category: Application

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

52) Franchisees may be obligated to contribute a percentage of sales to parent corporations.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

53) The number of minority-owned businesses has decreased in recent years.

Answer: FALSE

Difficulty: Easy

AACSB: Diverse and Multicultural Work Environments

Quest. Category: Application

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

54) Many new businesses are started by people who have left big corporations.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

55) The failure rate among small businesses has been increasing in recent years.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

56) Neglect is a major factor that contributes to small business failure.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.4: Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.

57) Which of the following types of businesses is MOST common in the United States?

A) Sole proprietorships

B) General partnerships

C) Cooperatives

D) Corporations

E) Limited partnerships

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.



58) In which business sector are cooperatives still important?

- A) Manufacturing
- B) Automotive
- C) Public utilities
- D) Agriculture
- E) Health care

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

59) Which of the following legal forms of business is owned and usually operated by a single person who is responsible for its debts?

- A) Cartel
- B) Corporation
- C) General partnership
- D) Sole proprietorship
- E) Limited partnership

Answer: D

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

60) What is a major drawback of sole proprietorships?

- A) Short-term focus of shareholders
- B) Work flexibility
- C) Low start-up costs
- D) Unlimited liability
- E) Structured hours

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

61) Which of the following will force a sole proprietorship to be legally dissolved?

- A) Sales exceed \$1 million.
- B) The partners reorganize the firm's structure.
- C) Earnings are less than \$500,000.
- D) The owner donates profits.
- E) The owner dies.

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

62) What resources does a sole proprietorship primarily depend on?

- A) The corporation
- B) Foreign investors
- C) Capital markets
- D) Those of the owner
- E) A committed clientele

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

63) What type of business has two or more owners who share in the operation of the firm and are financially responsible for its debts?

- A) Corporation
- B) Partnership
- C) Cooperative
- D) Conglomerate
- E) Nonprofit

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

64) What is the MOST common type of partnership?

- A) Limited partnership
- B) Corporate partnership
- C) General partnership
- D) Sole partnership
- E) Cooperative partnership

Answer: C

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

65) Who invests all of the funds needed for a business but plays no role in its management?

- A) Silent partner
- B) Sole proprietor
- C) General partner
- D) Principal
- E) Director

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

66) What is the MOST important advantage of general partnerships?

- A) The unlimited liability of the partnership
- B) The ability to grow with the addition of new talent and money
- C) The ease of implementing an effective control system
- D) The increased role of luck
- E) The need for minority partners

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

67) What do both sole proprietorships and partnerships lack?

- A) Trust
- B) Legal standing
- C) Continuity
- D) Shared vision
- E) Adaptable processes

Answer: C

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Synthesis

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

68) Which of the following is a partner who actively manages a firm and has unlimited liability for its debts?

- A) Limited partner
- B) General partner
- C) Stockholding partner
- D) Public partner
- E) Silent partner

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Application

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

69) The choice of legal ownership of a small business should be based on what?

- A) Goals of the entrepreneur
- B) Tax advantages
- C) Stakeholders needs
- D) Legal liability
- E) Ease of launch

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

70) Which of the following is an advantage of sole proprietorships?

- A) Ease in attracting a silent partner
- B) Sales and expenses are treated as part of personal finances
- C) It is easier to borrow money.
- D) There is increased continuity
- E) Bills are paid out of pocket

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

71) What type of partner invests all funds in the organization but plays no role in its management?

- A) Limited partnership
- B) General partner
- C) Silent partner
- D) Active partner
- E) Master limited partnership

Answer: C

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

72) Which of the following describes an investor in a business who is liable for some of its debt, but has no active role in its operation?

- A) General partners
- B) Unlimited partners
- C) Master partners
- D) Limited partners
- E) Minority partners

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

73) If a business owner needs money for expansion, but does not want to give up sole control over the business, what type of partnership would be best?

- A) General partnership
- B) Limited partnership
- C) Active partnership
- D) Master limited partnership
- E) Cooperatives

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

74) In what type of ownership is an owner liable for debt, but only based on how much they invested?

- A) Master limited partnership
- B) Cooperative
- C) Limited partnership
- D) Corporation
- E) General partnership

Answer: C

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

75) What type of partnership allows an organization to sell shares of the partnership to investors on a public market?

- A) General partnership
- B) Limited partnership
- C) Cooperative
- D) Master limited partnership
- E) Unlimited partnership

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

76) When a business owner forms a master limited partnership, what responsibilities does the master partner have toward the minority partner(s)?

A) The master partner must provide detailed operating and financial reports.

B) The master partner must allow the partners to decide all major business changes and transactions.

C) The master partner must make all liabilities clear before the partnership is formed.

D) The master partner must give up majority ownership.

E) The master partner must allow the partners to take an active role in the business.

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

77) The least common type of partnership is the general partnership.

Answer: FALSE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

78) Low start-up costs and tax benefits are advantages of sole proprietorships.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

79) By law, each general partner is liable for all debts incurred in the name of the partnership.

Answer: TRUE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

80) Describe three disadvantages of operating a business as a sole proprietorship.

Answer: The disadvantages of sole proprietorships include unlimited liability, lack of continuity, and limited financing options. A sole proprietor is totally responsible for all of the debts of the business and may have to give up personal assets to repay those debts. A sole proprietorship lacks continuity because the business dissolves with the death of the owner. Finally, sole proprietors have a limited ability to secure financing, relying mostly on their personal resources.

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Application

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

81) Discuss the advantages and disadvantages of partnerships.

Answer: Advantages of partnerships include their ability to grow with the addition of new talent and money, ease of organization, and independent legal status. Disadvantages are unlimited liability, potential lack of continuity, difficulty of transferring ownership, and little or no guidance for resolving internal conflicts.

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Analytical

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.

82) Discuss why a business owner would form a limited partnership instead of a general partnership.

Answer: General partnerships are among the least popular forms of business. For general partnerships, as for sole proprietorships, unlimited liability is the greatest drawback. Partnerships also share with sole proprietorships the potential lack of continuity. A related disadvantage is difficulty in transferring ownership. No partner may sell out without the consent of the others. The limited partnership allows for limited partners who invest money but are liable for debts only to the extent of their investments. They cannot, however, take active roles in business operations. A limited partnership must have at least one (or active) partner, mostly for liability purposes. This is usually the person who runs the business and is responsible for its survival and growth.

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Analytical

LO: 3.5: Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.



83) Why are lenders most willing to loan to corporations?

- A) Continuity and legal status are assured
- B) Links with owners and founders are established
- C) Professional management teams can be changed
- D) Commitment to expansion is readily available
- E) Brand and marketing strategies can be diversified

Answer: A

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

84) What type of corporation issues stock that is held by only a few people and not available to the public?

- A) Limited liability
- B) Subchapter S
- C) Public
- D) Closely held
- E) Professional

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

85) Which form of business ownership generates the MOST sales in the United States?

- A) Sole proprietorship
- B) General partnership
- C) Cooperative
- D) Corporation
- E) Limited partnership

Answer: D

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

86) Which type of business is legally considered a separate entity from its owners and is liable for its own debts?

- A) Sole proprietorship
- B) Corporation
- C) Limited partnership
- D) Cooperative
- E) General partnership

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

87) Who are the owners of a corporation?

- A) Board of directors
- B) Financial officers
- C) Stockholders
- D) Top managers
- E) Entrepreneurs

Answer: C

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

88) To raise revenue, what can a business issue and sell to those wishing to own some of the organization?

- A) Bonds
- B) Profits
- C) Stocks
- D) Dividends
- E) Loans

Answer: C

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

89) What type of company has stock that is widely held and available for sale to the general public?

- A) Private corporation
- B) Public corporation
- C) General partnership
- D) Limited liability corporation
- E) Professional corporation

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

90) What types of corporations are those comprised of doctors, lawyers, or accountants MOST likely to be?

- A) Private
- B) Public
- C) Subchapter S
- D) Professional
- E) Multinational

Answer: D

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

91) Which of the following occurs when two firms combine to create a new company?

- A) Acquisition
- B) Takeover
- C) Venture
- D) Divestiture
- E) Merger

Answer: E

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

92) When income is taxed at the corporate level and on shareholder returns as dividends, what is this situation known as?

- A) Dual costs
- B) Double taxation
- C) Regulatory costs
- D) Double ownership
- E) Financial balancing

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

93) What is the biggest advantage of incorporating?

- A) Limited liability
- B) Increased profits
- C) Tax advantage
- D) Increased talent pool
- E) Limited tender offers

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

94) What is the term for the profits that are distributed to all owners of a corporation?

- A) Tender
- B) Interests
- C) ESOP
- D) Dividends
- E) Yield

Answer: D

Difficulty: Moderate

AACSB: Reflective Thinking

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

95) What type of ownership is created when a firm buys another outright?

- A) Merger
- B) Acquisition
- C) Spin-off
- D) Divestiture
- E) Institutional

Answer: B

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

96) Who is responsible for the day-to-day management and overall performance of an organization?

- A) Officers
- B) President
- C) Chief Executive Officer
- D) Board of Directors
- E) Vice President

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

97) Which of the following occurs when an organization sells part of a business or operation to another corporation?

- A) Merger
- B) Acquisition
- C) Divestiture
- D) Buy out
- E) Spin off

Answer: C

Difficulty: Easy

AACSB: Analytical Thinking

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

98) Why would an organization divest some of its existing business operations?

- A) To focus more on its core business
- B) To create new partnerships
- C) Because the divested business is more valuable as a separate company
- D) To buy another firm outright
- E) To create a new company from several smaller ones

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

99) What is formed when a corporation establishes a trust on behalf of employees for the purpose of buying shares of ownership?

- A) Institutional ownership
- B) Divestiture
- C) Strategic alliance
- D) Corporate governance
- E) Employee stock ownership plan (ESOP)

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

100) In order to exert influence on corporate managers, groups can pool resources to buy huge blocks of stock. These groups are known as

- A) spin offs.
- B) ESOPS.
- C) joint ventures.
- D) institutional investors.
- E) strategic alliances.

Answer: D

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

101) Most institutional investors are large investors who purchase shares of an organization through

- A) employee stock ownership plans.
- B) spin offs.
- C) strategic alliances.
- D) joint ventures.
- E) mutual funds.

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

102) How can competing firms collaborate on a new business without losing control of their existing firm?

- A) Establish a joint venture
- B) Buy large blocks of the competitor's stock
- C) Hire a new chief executive office
- D) Sell off similar operations
- E) Change the corporate governance of both firms

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

103) Which type of corporation spans national boundaries and is subject to regulation in multiple countries?

- A) Publicly held
- B) Limited liability
- C) Subchapter S
- D) Professional
- E) Multinational

Answer: E

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

104) Which of the following is a unique feature of a multinational corporation?

- A) Owners have unlimited financial liability.
- B) Owners are taxed like partners.
- C) It is considered to be a partnership for tax purposes.
- D) Stock is held by only a few people.
- E) Stock is traded on the exchanges of several countries.

Answer: E

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

105) What is created when a corporation creates a new operation with another firm?

- A) Divestiture
- B) Spin-off
- C) Joint venture
- D) Merger
- E) Acquisition

Answer: B

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

106) What should competitors establish when collaborating on a project that might have mutual gain?

- A) Stock options
- B) A new Board of Directors
- C) A strategic alliance
- D) Institutional investors
- E) A spin-off

Answer: C

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.



107) What is the advantage of forming a strategic alliance with a competitor or supplier?

- A) Mutual gain
- B) Increased shares of stock
- C) The ability to influence the price of stock
- D) To legally join the two organizations
- E) The ability to sell a section of the business but still retain control

Answer: A

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

108) A limited liability corporation is a hybrid of a publicly held corporation and a partnership.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

109) Corporations enjoy significant tax benefits when compared to sole proprietorships or partnerships.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

110) An S corporation has stock that is widely held and available for sale to the general public.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

111) The board of directors of a corporation reports to the officers of the corporation.

Answer: FALSE

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

112) An organization's president is usually responsible for the overall performance of the firm.

Answer: FALSE

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Critical Thinking

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

113) An employee stock ownership plan allows employees to join together and influence corporate managers and how they run the company.

Answer: FALSE

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

114) A joint venture occurs when partners share ownership of a new enterprise.

Answer: TRUE

Difficulty: Easy

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

115) Explain limited liability in a corporation.

Answer: Limited liability is the legal principle holding investors liable for a firm's debts only to the limits of their personal investment in it. The biggest advantage of corporations is limited liability. Investor liability is limited to personal investment (through stock ownership) in the corporation. In the event of failure, the courts may seize and sell a corporation's assets but cannot touch the investors' personal possessions.

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Critical Thinking

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

116) Explain a tender offer.

Answer: A tender offer is an offer to buy shares made by a prospective buyer directly to a corporation's shareholders. A corporation can be taken over against the will of its managers through a tender offer. A tender offer is an offer to buy shares made by a prospective buyer directly to a corporation's shareholders, who then make individual decisions about whether to sell.

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

117) A corporation must be managed on the principles of corporate governance. Explain what this is.

Answer: Corporate governance is the role of shareholders, directors, and other managers in corporate decision making and accountability. This governance is established by a firm's bylaws and usually involves stockholders, the board of directors, and officers.

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

118) Explain the role of a corporation's board of directors.

Answer: The board of directors is responsible for communicating with shareholders and other stakeholders and for setting financial policy on issues such as dividends, major spending, and executive compensation. The board is legally responsible and accountable for corporate actions.

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Concept

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

119) Discuss the advantages and disadvantages of corporations.

Answer: The advantages include limited liability, continuity, and the ability to raise money. Among the disadvantages are transferring ownership such as through a tender offer, higher start-up costs, and double taxation. The biggest advantage of incorporation is limited liability. Investor liability is limited to personal investment (through stock ownership) in the corporation. The biggest disadvantage of incorporation is double taxation.

Difficulty: Difficult

AACSB: Reflective Thinking

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

120) Describe the three distinct bodies of corporate governance that are specified in a corporation's bylaws.

Answer: Stockholders are the owners of a corporation who buy shares of ownership. The board of directors is a group of people elected by stockholders to oversee the management of the corporation. Corporate officers are top managers hired by the board to run the corporation on a day-to-day basis. Corporate governance covers the roles of shareholders, directors, and other managers in corporate decision making and accountability.

Difficulty: Difficult

AACSB: Application of Knowledge

Quest. Category: Synthesis

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

121) Explain the difference between mergers and acquisitions and why they are important forms of corporate strategy.

Answer: In an acquisition, one firm buys another outright. Many deals that are loosely called mergers are really acquisitions. This is because one of the two firms will usually control the newly combined ownership. In general, when the two firms are roughly the same size, the combination is usually called a merger even if one firm is taking control of the other. When the acquiring firm is substantially larger than the acquired firm, the deal is really an acquisition. So-called mergers and acquisitions are an important form of corporate strategy. They let firms increase product lines, expand operations, go international, and create new enterprises..

Difficulty: Moderate

AACSB: Application of Knowledge

Quest. Category: Analytical

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.

122) Discuss the difference among a divestiture, a merger and acquisition, and a spin-off.

Answer: One important set of issues includes mergers, acquisitions, divestitures, and spin-offs. Mergers and acquisitions involve the legal joining of two or more corporations. A divestiture occurs when a corporation sells a business operation to another corporation; with a spin-off, it creates a new operation.

Difficulty: Moderate

AACSB: Analytical Thinking

Quest. Category: Synthesis

LO: 3.6: Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.