

Test Bank
to accompany

Entrepreneurship: Starting and Operating a Small Business

3rd Edition

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CHAPTER 1

Entrepreneurs Recognize Opportunities

Chapter 1 – Multiple Choice

Choose the most appropriate answer to the following questions:

1. Products are tangible, meaning _____.
- a. you can't actually touch them
 - b. you can sell them
 - c. you can touch them
 - d. you can see them

Answer: C

Objective: Explain what entrepreneurs do.

Page number: 3

Level: Basic

2. In the United States half of the private workforce is represented by _____.
- a. small business owners and their employees
 - b. entrepreneurs
 - c. corporations and their employees
 - d. women and minorities

Answer: A

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 7

Level: Basic

3. The system that produces and distributes the wealth of a country is called _____.
- a. the economy
 - b. the government
 - c. the justice system
 - d. free enterprise

Answer: A

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 4

Level: Intermediate

4. Entrepreneurs have more control over more aspects of their working lives than employees. Of which aspect of their working lives do employees have more control?
- a. financial uncertainty
 - b. working conditions

- c. time
- d. encroachment on personal time

Answer: A

Objective: Explain what entrepreneurs do.

Page number: 10

Level: Intermediate

5. The most successful entrepreneurs say they are motivated by _____.
- a. the desire to make their vision come true
 - b. the desire for money and to make their vision come true
 - c. the desire for money
 - d. the desire for more independence

Answer: B

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 24

Level: Basic

6. The United States economy is a free enterprise system. It is also referred to as a "free trade system" because it is based on _____.
- a. voluntary exchange
 - b. gambling and chance
 - c. involuntary exchange
 - d. government cooperation

Answer: A

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 5

Level: Basic

7. If a business is not making a profit, the entrepreneur knows that _____.
- a. no one wants to buy the product/service
 - b. he/she is not making good use of scarce resources
 - c. people are willing to buy the product/service at high price
 - d. competition is too great

Answer: B

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 24

Level: Difficult

8. Entrepreneurship can be very challenging. Which is **not** a typical challenge of being an entrepreneur?
- a. loneliness
 - b. financial reward

- c. long hours
- d. financial insecurity

Answer: B

Objective: Explain what entrepreneurs do.

Page number: 10

Level: Intermediate

9. When making an investment, always consider the _____, which is the cost of your next-best investment.

- a. next-investment cost
- b. cost of goods sold
- c. opportunity cost
- d. marginal cost

Answer: C

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 11

Level: Difficult

10. Entrepreneurs look at five basic ways of opportunity for business ideas. Which is **not** one of those five?

- a. developing new market for existing product
- b. producing a product more cheaply
- c. finding new ways to use existing technology
- d. raising prices in an existing market

Answer: D

Objective: Find and evaluate opportunities to start your own business.

Page number: 14

Level: Difficult

11. The reward for satisfying a customer need is earning a _____.

- a. business
- b. discount
- c. profit
- d. referral

Answer: C

Objective: Explain what entrepreneurs do.

Page number: 6

Level: Basic

12. Profit is a sign that an entrepreneur has added value to the "scarce" _____ that he or she is using.

- a. goods
- b. employees

- c. resources
- d. customer service

Answer: C

Objective: Explain what entrepreneurs do.

Page number: 4

Level: Intermediate

13. Most of the world's businesses are _____ businesses.

- a. small
- b. medium-sized
- c. large
- d. family-owned

Answer: A

Objective: Explain what entrepreneurs do.

Page number: 6

Level: Basic

14. Entrepreneurs view change as _____.

- a. inevitable
- b. an opportunity
- c. a problem
- d. a challenge

Answer: B

Objective: Find and evaluate opportunities to start your own business.

Page number: 15

Level: Difficult

15. A company that has more than _____ employees and sales of more than \$ _____ million per year is considered to be a "big" business.

- a. 100 / \$5 million
- b. 100 / \$10 million
- c. 500 / \$ 5 million
- d. 500/ \$10 million

Answer: C

Objective: Explain what entrepreneurs do.

Page number: 6

Level: Intermediate

16. Some of the world's greatest entrepreneurs have overcome challenges from their childhood and youth, including all of these except one.

- a. learning disabilities
- b. abuse

- c. extreme poverty
- d. financial prosperity

Answer: D

Objective: Explain what entrepreneurs do.

Page number: 8

Level: Difficult

17. Since time began, people have had to answer the same basic economic questions. Among these are _____?

- a. where will something be produced
- b. what should be produced
- c. how fast should something be produced
- d. what are the opportunity costs

Answer: B

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 4

Level: Difficult

18. Which of the following is **not** a characteristic that is helpful for an entrepreneur to have?

- a. self-confidence
- b. caution
- c. self-esteem
- d. drive

Answer: B

Objective: Explain what entrepreneurs do.

Page numbers: 9 - 10

Level: Basic

19. How does the free-enterprise system discourage entrepreneurs who waste resources?

- a. The government penalizes them.
- b. They run into regulations that make it too difficult for them to operate.
- c. They can't make a profit and are forced out of business.
- d. They limit competition.

Answer: C

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 5

Level: Difficult

20. Why do consumers benefit from free trade and the resulting competition between businesses?

- a. Competition drives away the entrepreneurs who use resources most wisely.
- b. Competition tends to drive down prices and improve quality.

- c. Competition offers consumers fewer choices and makes the marketplace less confusing.
- d. Competition reduces the choices to consumers.

Answer: B

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 6

Level: Difficult

21. When starting a business it is a good rule to expect to lose money for the first _____ before the business starts selling at a profit.
- a. three months
 - b. six months
 - c. one year
 - d. three years

Answer: A

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 28

Level: Intermediate

22. Closing a business is nothing to be ashamed of if you _____.
- a. learn something from the experience
 - b. are on vacation in Jamaica
 - c. have a partner
 - d. are a corporation

Answer: A

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 24

Level: Intermediate

23. The great economist Joel Schumpeter emphasized that innovation is the key to entrepreneurship. Which of the following is a basic way to create a new business?
- a. expand upon old technology
 - b. develop current markets
 - c. use new technology to produce a new product
 - d. find a less expensive source of resources

Answer: C

Objective: Find and evaluate opportunities to start your own business.

Page number: 14

Level: Difficult

24. An entrepreneur must strike an excellent balance between being a(n) _____.
- a. accountant and marketer
 - b. president and vice president

- c. risk taker and someone who carefully evaluates a decision
- d. sales person and a marketer

Answer: C

Objective: Describe how free enterprise economies work and how entrepreneurs fit into them.

Page number: 13

Level: Difficult

25. Entrepreneurs that participate in activities to avoid harm to the environment or help protect it in some ways are engaged in _____.

- a. venture philanthropy
- b. green entrepreneurship
- c. social entrepreneurship
- d. corporate responsibility

Answer: B

Objective: Find and evaluate opportunities to start your own business.

Page number: 14

Level: Basic

26. A business opportunity is an idea, plus _____.

- a. it is attractive to suppliers
- b. it may have marginal performance in your business environment
- c. it has a limitless window of time to work within
- d. it is attractive to customers and will work in your business environment

Answer: D

Objective: Find and evaluate opportunities to start your own business.

Page number: 17

Level: Difficult

27. In creating a new business, a(n) _____ is one that comes from inside you, a hobby or an interest.

- a. internal opportunity
- b. passionate choice
- c. compulsion
- d. external opportunity

Answer: A

Objective: Find and evaluate opportunities to start your own business.

Page number: 18

Level: Intermediate

28. The best business opportunities often combine both _____ and _____.

- a. extreme luck / chance
- b. luck / sales skill

- c. sales / marketing
- d. internal / external factors

Answer: D

Objective: Find and evaluate opportunities to start your own business.

Page number: 19

Level: Intermediate

29. Russell Simmons, founder of Def Jam Records, believes that if you know 10 people who will buy your product, _____ would be willing to buy it if they knew about it.

- a. 1,000
- b. 10 more
- c. 10 million
- d. 10,000

Answer: C

Objective: Find and evaluate opportunities to start your own business.

Page number: 18

Level: Intermediate

30. To Russell Simmons, among the seven rules for building a successful business are _____.

- a. gathering resources and deciding the form of ownership
- b. building a team and writing a realistic plan
- c. recognizing an opportunity and evaluating it
- d. All of the above.

Answer: D

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 25

Level: Difficult

Chapter 1 – Essay

Provide detailed and comprehensive information to support your answer. Where applicable, use examples to support your answers.

31. Explain how entrepreneurs can add value to scarce resources, and what signal they use to determine whether or not they are succeeding in doing so.

Answer: A scarce resource is something of value that can be used to make something else or to fill a need. The French economist Jean Baptiste Say wrote at the turn of the 19th century: "The entrepreneur shifts economic resources [like wood or coal] out of an area of lower and into an area of higher productivity and greater yield." By doing this, Say argued, entrepreneurs add value to scarce resources.

Objective: Explain what entrepreneurs do.

Page number: 4

Level: Difficult

32. Describe three potential rewards of becoming an entrepreneur that appeal to you.

Answer: (The answer should describe 3 of the following 5 rewards.)

1. Control over time - Do you work better at midnight than at 8 a.m.? If you start your own business, you have control over how you spend your time. Are you the type of person who would rather work like really hard for two weeks nonstop and then take a break? If you are an entrepreneur, you can. You can also choose to hire other people to do tasks that you do not want to do or are not good at, so you can stay focused on what you do best. Bill Gates likes to spend his time designing software. He hires other people to manage Microsoft's operations and market and sell its products.

2. Fulfillment - Successful entrepreneurs are passionate about their businesses. They are excited and fulfilled by their work. Entrepreneurs are almost never bored. If something about running their business is boring to them, they can hire someone to do that task.

3. Creation/Ownership - Entrepreneurship is a creative endeavor: Entrepreneurs put their time into creating something that they hope will survive and become profitable. Entrepreneurs own the businesses that they create and the profits that the businesses earn. Ownership is the key to wealth. Your goal is to create a business that makes a continuing profit. Eventually, you may be able to sell that business for a multiple of earnings. That is how entrepreneurs create wealth.

4. Control over compensation - Entrepreneurs choose how they are paid. As owner of your company you can decide to:

Pay yourself a salary - a fixed payment made at regular intervals, such as every week, or every month. No matter how much time you put in, the salary remains the same.

Pay yourself a wage - a fixed payment per hour.

Take a share of the company's profit - as the owner you can pay yourself a portion of the business's profit. This payment is called a dividend.

Take a commission on every sale you make. - A commission is a percentage of the value of a sale. If you decide to pay yourself 10% commission and you sell one of your products for \$120, your commission on the sale would be \$12.

5. Control over working conditions - As an entrepreneur you can create a working environment that reflects your values. If you believe in recycling, you can make sure your company recycles. You also evaluate your own performance. No one else has the power to hire or fire you.

Objective: Explain what entrepreneurs do.

Page numbers: 6-8

Level: Difficult

33. Explain why it is important to consider opportunity cost when making a decision.

Answer: Using a comparison of costs and benefits to make a decision is called cost/benefit analysis. It is a helpful tool because we tend to make decisions with our emotions, not with by using our intellect to evaluate the pros and cons. Cost/benefit analysis can be inaccurate, however, without including opportunity cost. This is the cost of your "next-best investment." People often make decisions without considering opportunity costs and then wonder why they are not happy with the outcome. Each time you make a decision about what to do with your time, energy, or money think about the cost of the opportunities that you are giving up.

Objective: Describe how free enterprise economics work and how entrepreneurs fit into them.

Page number: 11

Level: Difficult

34. What are the five roots of opportunity in the marketplace?

Answer: 1. Problems that your business can solve

2. Changes in laws, situations or trends

3. Inventions of totally new products or services

4. Competition. If you can find a way to beat your competition on price, location, quality, reputation, reliability or speed, you can create a very successful business with an existing product or service.

5. Technological Advances. Scientists may invent new technologies, but entrepreneurs figure out how to use and sell it.

Objective: Find and evaluate opportunities to start your own business.

Page number: 18

Level: Difficult

35. What are the seven rules for building a successful business?

Answer: 1. Recognize an opportunity. Find a problem, change, invention, technology, or competitive weakness that you can exploit.

2. Evaluate it with critical thinking. Analyze the idea: the costs, the benefits, and the opportunity costs.

3. Build a team. Two, three, or four heads are better than one.

4. Write a realistic business plan. A written business plan is necessary to get investors to provide you money.

5. Gather resources. Assemble the team and the money you have brought together.

6. Decide ownership. NOTE: This is not really explained in the chapter but it alludes to deciding the legal form of ownership of the business: proprietorship, some form of partnership, or some type of corporation.

7. Create wealth. NOTE: This is not elaborated upon either, but it refers to using the business to generate ongoing profit or to create a platform for acquisition by others at a profit to the founder/owner.

Objective: Explain how profit works as a signal to the entrepreneur. Explain how profit works as a signal to the entrepreneur.

Page number: 25

Level: Difficult

Chapter 2 – True-False

36. An entrepreneur is a person who assumes the risks of organizing and managing a business for the sake of reducing stress from the “rat race.”

a. True

b. False

Answer: False

Objective: Explain what entrepreneurs do.

Page number: 3

Level: Basic

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

a. True

b. False

Answer: True

Objective: Describe how free enterprise economics work and how entrepreneurs fit into them.

Page number: 9

Level: Intermediate

38. Where others see problems, entrepreneurs recognize opportunities.

a. True

b. False

Answer: True

Objective: Find and evaluate opportunities to start your own business.

Page number: 3

Level: Basic

39. The seven rules for building a successful business include recognizing an opportunity, evaluating it with critical thinking, building a team, and financing with money from credit cards.

a. True

b. False

Answer: False

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 25

Level: Difficult

40. Profits result form customer choices, **not** the entrepreneur's choices.
- a. True
 - b. False

Answer: False

Objective: Explain how profit works as a signal to the entrepreneur.

Page number: 24

Level: Difficult

ANSWER KEY

1. C

2. A

3. A

4. A

5. B

6. A

7. B

8. B

9. C

10. D

11. C

12. C

13. A

14. B

15. B

16. D

17. B

18. B

19. C

20. B

21. A

22. A

23. D

24. C

25. B

26. D

27. A

28. D

29. C

30. D

31. A scarce resource is something of value that can be used to make something else or to fill a need. The French economist Jean Baptiste Say wrote at the turn of the 19th century: "The entrepreneur shifts economic resources [like wood or coal] out of an area of lower and into an area of higher productivity and greater yield." By doing this, Say argued, entrepreneurs add value to scarce resources.

Profit is the sign that an entrepreneur has added value to the scarce resources he or she is using. Debbi Fields, for example, added value to scarce resources (milk, butter, flour, chocolate) by creating cookies that people were willing to buy for a price that gave her a profit. In contrast, not making a profit is a sign that the entrepreneur is not using resources very well and is not adding value to them.

32. (The answer should describe 3 of the following 5 rewards.)

1. Control over time - Do you work better at midnight than at 8 a.m.? If you start your own business, you have control over how you spend your time. Are you the type of person who would rather work like really hard for two weeks nonstop and then take a break? If you are an entrepreneur, you can. You can also choose to hire other people to do tasks that you do not want to do or are not good at, so you can stay focused on what you do best. Bill Gates likes to spend his time designing software. He hires other people to manage Microsoft's operations and market and sell its products.

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36. False

37. True

38. True

39. False

40. False

CHAPTER 2

The Business Plan: Road Map to Success

Chapter 2 – Multiple Choice

Choose the most appropriate answer to the following questions:

1. A(n) _____ is a document that thoroughly explains a business idea and how it will be carried out.

- a. resume
- b. marketing plan
- c. analysis
- d. business plan

Answer: D

Objective: Know what a business plan is and how to describe it.

Page number: 42

Level: Basic

2. Bankers and other potential investors will often refuse to see an entrepreneur who does not have a _____.

- a. complete business plan
- b. sales forecast
- c. resume
- d. marketing plan

Answer: A

Objective: Know what a business plan is and how to describe it.

Page number: 44

Level: Basic

3. Writing a business plan can ensure that you _____.

- a. achieve your expense projections
- b. figure out how to make your business work
- c. meet your target revenue goals
- d. make a profit

Answer: B

Objective: Know what a business plan is and how to describe it.

Page number: 43

Level: Intermediate

4. It is best for _____ to write a new venture's business plan.
- a. the marketing manager
 - b. the entire team
 - c. a consultant
 - d. the Chief Financial Officer

Answer: B

Objective: Understand the components of a business plan.

Page number: 46

Level: Intermediate

5. Your business plan projections should be _____.
- a. incredible and impossible to reach
 - b. optimistic and a bit of a stretch
 - c. practical and easy to reach
 - d. realistic and attainable

Answer: D

Objective: Understand the components of a business plan.

Page number: 51

Level: Difficult

6. A business plan can help a company _____.
- a. operate more effectively
 - b. define its core mission
 - c. raise capital
 - d. All of the above

Answer: D

Objective: Understand the components of a business plan.

Page numbers: 43 - 46

Level: Difficult

7. The _____ section of the business plan should be written last.
- a. Cover Page
 - b. Mission, Vision, Culture
 - c. Executive Summary
 - d. Financial Statements

Answer: C

Objective: Understand the components of a business plan.

Page number: 46

Level: Basic

8. The Executive Summary contains the _____.
- a. inspired enthusiasm for success
 - b. story of the business
 - c. funding request
 - d. All of the above.

Answer: D

Objective: Understand the components of a business plan.

Page number: 46

Level: Difficult

9. Making the beliefs, values, and behavioral norms explicit and intentional builds the _____ of an organization.
- a. culture
 - b. vision
 - c. mission
 - d. All of the above.

Answer: A

Objective: Understand the components of a business plan.

Page number: 46

Level: Difficult

10. One section of the business plan that is often neglected is the _____.
- a. Marketing Plan
 - b. Opportunity Analysis and Research
 - c. Executive Summary
 - d. Financial Projections

Answer: B

Objective: Understand the components of a business plan.

Page number: 47

Level: Difficult

11. The _____ addresses the roles of the community, region, nation, and world in a business.
- a. business analysis
 - b. environmental analysis
 - c. industry analysis
 - d. proof of market

Answer: B

Objective: Understand the components of a business plan.

Page number: 48

Level: Intermediate

12. Target market segments are defined by common factors such as _____.
- a. psychographics
 - b. geography
 - c. demographics
 - d. All of the above.

Answer: D

Objective: Understand the components of a business plan.

Page number: 48

Level: Intermediate

13. A(n) _____ competitor provides a substitute product or service that a consumer might buy instead of yours.
- a. contextual
 - b. indirect
 - c. direct
 - d. alternate

Answer: B

Objective: Understand the components of a business plan.

Page number: 48

Level: Basic

14. The four factors that form competitive advantage are _____.
- a. product, price, promotion, and place
 - b. product, place, politics, and price
 - c. product, packaging, promotion, and price
 - d. product, price, promotion, and public opinion

Answer: A

Objective: Understand the components of a business plan.

Page number: 48

Level: Basic

15. Price should reflect the organization's _____.
- a. policy
 - b. vision
 - c. strategy
 - d. All of the above.

Answer: D

Objective: Understand the components of a business plan.

Page number: 49

Level: Difficult

16. Advertising is _____ promotion through media outlets.
- a. paid
 - b. free
 - c. discounted
 - d. personal

Answer: A

Objective: Understand the components of a business plan.

Page number: 49

Level: Basic

17. Telemarketing is a form of _____.
- a. advertising
 - b. publicity
 - c. direct marketing
 - d. None of the above.

Answer: C

Objective: Understand the components of a business plan.

Page number : 49

Level: Intermediate

18. Which of the following is **not** needed in all business management teams?
- a. operations
 - b. outside directors
 - c. marketing
 - d. accounting

Answer: B

Objective: Understand the components of a business plan.

Page number: 49

Level: Difficult

19. Resumes and position descriptions should be included in business plans for _____.
- a. all employees
 - b. key managers
 - c. Both of these.
 - d. Neither of these.

Answer: B

Objective: Understand the components of a business plan.

Page number: 49

Level: Intermediate

20. A factor to consider when selecting a physical location is _____.
- a. nearby university
 - b. wage rates
 - c. work force availability
 - d. All of the above.

Answer: D

Objective: Understand the components of a business plan.

Page number: 50

Level: Intermediate

21. Cash flow _____ be negative before debt and equity infusions and _____ be negative after them.
- a. can, cannot
 - b. cannot, cannot
 - c. cannot, can
 - d. can, can

Answer: A

Objective: Understand the components of a business plan.

Page number: 51

Level: Difficult

22. Income statement projections realistically _____ in the first few months of operations.
- a. show losses
 - b. show profits
 - c. breakeven
 - d. marginal profits

Answer: A

Objective: Understand the components of a business plan.

Page number: 51

Level: Intermediate

23. Ratio analysis can help business owners _____.
- a. secure funding
 - b. manage operations
 - c. understand their performance relative to peers
 - d. All of the above.

Answer: D

Objective: Understand the components of a business plan.

Page number: 54

Level: Difficult

24. An IPO is a _____ exit strategy for entrepreneurial ventures.
- a. extinct
 - b. rare
 - c. common
 - d. an alternative for a buyout plan

Answer: D

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 55

Level: Difficult

25. Which of the following is **not** a best practice?
- a. Write for your audience.
 - b. Use technical language and jargon.
 - c. Show that you are emotionally, intellectually and financially invested in the business.
 - d. Explain why the business will be successful.

Answer: B

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 56

Level: Difficult

26. A(n) _____ is a 15 to 30 second summary of your business.
- a. story
 - b. advertisement
 - c. elevator pitch
 - d. executive summary

Answer: C

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 57

Level: Basic

27. When you make an in-person presentation to prospective investors you should _____.
- a. introduce yourself
 - b. engage the listeners interest
 - c. use clear visual aids
 - d. All of the above.

Answer: D

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 57

Level: Intermediate

28. Business plan and venture competitions for students are held worldwide. Many all of them include _____.

- a. oral presentations
- b. prizes
- c. travel
- d. All of the above.

Answer: D

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 58

Level: Intermediate

29. If a company does not have _____ it will fail.

- a. property
- b. cash
- c. advertising
- d. advanced technology

Answer: B

Objective: Understand the components of a business plan.

Page number: 51

Level: Basic

Chapter 2 – Essay

Provide detailed and comprehensive information to support our answer. Where applicable use examples to support your answers.

30. Explain 3 reasons why a start-up organization would have a written business plan.

Answer: 1. Writing a business plan early will save you time and money.

2. Your business plan is the key to raising capital.

3. The business plan is an operations guide.

Objective: Know what a business plan is and how to describe it.

Page numbers: 43 – 45

Level: Intermediate

31. What is the importance of having a professional, polished business plan?

Answer: A plan with clear, concise language, current data, a single "voice," and a consistent format is professional. A professional business plan on high quality paper with a neat, attractive cover and cover page and professional binding will go a long way to impressing the reader. The potential investor or other reader needs to find the plan appealing in order to read it.

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page numbers: 55 - 56

Level: Difficult

32. Discuss the significance of the management section of the business plan and what it should contain.

Answer: The management team is often the deciding factor for financial support of the business. With all other factors being equal, a strong management team will be successful and a weak one will fail. The team must be composed of an effective balance of members with technical expertise, experience in the field, and life experience. In the plan, you should briefly discuss the current and proposed management team and reference their resumes in the appendices. An organizational chart and descriptions of key roles is helpful, as is a chart of compensation rates.

Objective: Understand the components of a business plan.

Page numbers: 49 - 50

Level: Difficult

33. Describe mission, vision and culture.

Answer: The mission of a business is expressed in a mission statement which is a concise communication of strategy, including the business definition and competitive advantage. Its function is to clarify what the business is trying to do and it can provide direction motivation to those who are involved in the business.

The vision for a business is broader and more comprehensive, painting the big picture of what you want your organization to become. It is built on the core values and belief systems of the organization. It is typically shorter than the mission statement, with a loftier perspective.

The culture of an organization is largely defined by its leadership. Organizational culture has many components, including norms for risk tolerance and innovation, orientation with respect to people, team-formation and outcomes, attention to detail, and communication.

Objective: Understand the components of a business plan.

Page number: 46

Level: Intermediate

34 What are the types of financial information to include in a business plan and why are they important?

Answer: The financial section of the business plan is the numeric representation of all that is written in it. It should demonstrate organizational viability in financial terms. Commercial lenders in particular will often go directly from reading the executive summary to the financials before reading anything else.

Objective: Understand the components of a business plan.

Page numbers: 51 - 54

Level: Difficult

Chapter 2 – True-False

35. A feasibility analysis is a study to assist in making a go/no go decision based upon a close examination of product/service, market, industry, and financial data in a sufficient degree of detail to ensure confidence in the results.

- a. True
- b. False

Answer: True

Objective: Know what a feasibility analysis is and when to create one.

Page number: 38

Level: Intermediate

36. It is best to wait to write a business plan until you find lenders or investors.

- a. True
- b. False

Answer: False

Objective: Know what a business plan is and how to describe it.

Page number: 43

Level: Intermediate

37. A business plan is the key to raising capital.

- a. True
- b. False

Answer: True

Objective: Explain the various purposes of a business plan and the audience for each.

Page number: 44

Level: Basic

38. The marketing plan is based on the marketing mix of product, price, place, and packaging.

- a. True
- b. False

Answer: False

Objective: Understand the components of a business plan.

Page number: 48

Level: Intermediate

39. The appendices will provide you with an opportunity to strengthen your business plan with examples and details that are not critical for inclusion in the main portions.

- a. True
- b. False

Answer: True

Objective: Be able to demonstrate proper development and formatting of a business plan.

Page number: 55

Level: Difficult

ANSWER KEY

1) D

2) A

3) B

4) B

5) D

6) D

7) C

8) D

9) A

10) B

11) B

12) D

13) B

14) A

15) D

16) A

17) C

18) B

19) B

20) D

21) A

22) A

23) D

24) D

25) B

26) C

27) D

28) D

29) B

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Financial projections should be realistic. They are likely to show initial losses. They should match both the general market and the other information provided throughout the business plan.

Specific information to include:

Sources and uses of capital - What funds are needed and how they will be used.

Cash flow statements - Need for cash and when it will become positive. Also, when dividends or repayment are possible.

Balance sheets - What is owned and what is owed. Strength of resources.

Income statements - Is the company profitable? What are its earnings?

Ratio analysis - Provide the ability to benchmark and better manage the company

35) True

36) False

37) True

38) False

39) True

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