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Chapter 1

What is Entrepreneurship?

True/False Questions

1. All small business owners are entrepreneurs.
False; Moderate
2. All risks in starting a new business can be known, understood, and quantified.
False; Easy
3. Those with white-collar jobs tend to be involved in hard, physical labor.
False; Easy
4. Knowledge-based jobs started to become prevalent in the mid- to late-20th century.
True; Easy
5. The desire for creative freedom is one reason why people start their own businesses.
True; Easy
6. Tax deductible expenses add to a business' overall tax liability.
False; Easy
7. It is common to start your own business and work less than thirty hours a week.
False; Easy
8. There are numerous legal obligations that come with starting a business.
True; Easy
9. Small businesses account for approximately half of the GDP of the United States.
True; Moderate
10. Even though the majority of firms have zero employees, small businesses account for almost half of all jobs in the United States.
True; Moderate

Multiple Choice Questions

1. Which of the following is not a type of small business?
 - a. Home-Based
 - b. Wholesaler
 - c. Consulting/Contracting
 - d. Franchise
 - e. Online Retailer**B; Moderate**
2. What kind of activities tend to happen at a home-based business?
 - a. Writing/Copyediting Services
 - b. Event Planning
 - c. Interior decorating
 - d. Computer repair
 - e. All of the above**e; Easy**
3. Entrepreneurial ventures tend to look for _____ opportunities but may encounter unknown _____.
 - a. established; challenges
 - b. new; costs
 - c. stable; risks
 - d. small; failures
 - e. innovative; risks**e; Moderate**
4. A/An _____ is a person or people who start a new business venture.
 - a. sole proprietor
 - b. franchisee
 - c. innovator
 - d. entrepreneur
 - e. storefront**d; Moderate**
5. _____ is the process of starting or building a business venture.
 - a. Business servicing
 - b. Franchising
 - c. Entrepreneurship
 - d. Contracting
 - e. Retailing**c; Moderate**
6. This is the simplest form of business ownership, in which there is a single owner.
 - a. Franchise
 - b. Sole proprietorship
 - c. Agency
 - d. Contractor
 - e. Storefront**b; Easy**

7. _____ theorized that profit was the reward for risk-taking during periods of uncertainty.
- a. Peter F. Drucker
 - b. Max Weber
 - c. Joseph Schumpeter
 - d. Frank H. Knight
 - e. Israel Kirtzner
- d; Hard**
8. _____ believed that one's religious views would inform a person's beliefs about the accumulation of wealth and entrepreneurship.
- a. Israel Kirtzner
 - b. Peter F. Drucker
 - c. Max Weber
 - d. Mark Casson
 - e. Frank H. Knight
- c; Hard**
9. Businesses expenses that reduce the tax liability of a business are called?
- a. Tax deflating
 - b. Tax inflating
 - c. Automobile expenses
 - d. Tax deductible
 - e. Insurance
- d; Easy**
10. _____ is a government agency that helps support small business owners.
- a. Small Business Administration
 - b. Department of Labor
 - c. Better Business Bureau
 - d. Department of Commerce
 - e. Department of Business
- a; Moderate**
11. _____ are a collection of laws, rules, and codes that businesses and owners must follow.
- a. Financial obligations
 - b. Legal regulations
 - c. Autonomous notifications
 - d. Active policies
 - e. Interactive rule-making
- b; Easy**
12. _____ are the general requirements of a business to pay money that is owed by the business.
- a. Financial obligations
 - b. Active policies
 - c. Autonomous notifications
 - d. Legal regulations
 - e. Interactive rule-making
- a; Easy**

13. _____ is the ability to determine one's own course of action.
- a. Dichotomy
 - b. Entrepreneurship
 - c. Autonomy
 - d. Management
 - e. Interactivity
- c; Easy**
14. The _____ introduced machinery, steam powered equipment, and railway transportation, which dramatically changed the way people worked and lived.
- a. Knowledge Revolution
 - b. Industrial Revolution
 - c. Internet Revolution
 - d. Blur-Collar Revolution
 - e. Agricultural Revolution
- b; Moderate**
15. _____ is the process by which new products, services, or ideas are conceived.
- a. Innovation
 - b. Creation
 - c. Division
 - d. Entrepreneurship
 - e. Regulation
- a; Easy**
16. _____ is a situation or condition in which a business may be exposed to a financial harm or loss.
- a. Entrepreneurship
 - b. Consulting
 - c. Risk
 - d. Contracting
 - e. Leveraging
- c; Easy**
17. As opposed to blue-collar jobs, _____ jobs involve specialized skills outside of physical labor.
- a. venture
 - b. entrepreneurial
 - c. theory-based
 - d. knowledge-based
 - e. industry-based
- d; Moderate**
18. Which of the following statements about small businesses is inaccurate?
- a. Small businesses make up only approximately 10% of the nation's GDP.
 - b. Approximately one tenth of small businesses are owned by women.
 - c. Approximately one-fifth of small businesses are family owned.
 - d. Approximately 50% of all small businesses are home-based businesses.
 - e. Approximately 60% of all firms have no employees.
- a; Moderate**

19. Facebook has had an influence on the business world. It was started in what year?
- a. 2006
 - b. 2004
 - c. 2000
 - d. 2002
 - e. 2008
- b; Moderate**
20. The Industrial Revolution caused which of the following changes?
- a. Famines became more common.
 - b. White-collar jobs began to proliferate.
 - c. More food began to be produced by hand.
 - d. A decrease in the literacy rate.
 - e. The population transition from farm to city.
- e; Easy**
21. Google's AdWords system uses what kind of concept?
- a. Advertising
 - b. Front linkages
 - c. Back linkages
 - d. View counting procedures
 - e. Pay-per-click
- e; Moderate**
22. Broadcast.com, started in 1995, had difficulty and closed in 2002 due to what problem?
- a. Too many competitors
 - b. No one wanted streaming radio or video
 - c. Too few people had personal computers
 - d. Lack of stable, high-speed internet connections
 - e. Lack of quality content
- d; Moderate**
23. Google and Facebook utilize a system of advertising that uses a person's _____ to provide targeted advertising.
- a. phone number
 - b. zip code
 - c. interests and browsing habits
 - d. eating habits
 - e. family history
- c; Moderate**
24. Small businesses account for approximately what fraction of the nation's GDP?
- a. 10%
 - b. 50%
 - c. 25%
 - d. 75%
 - e. 30%
- b; Moderate**
25. Small businesses account for approximately what fraction of recently created jobs?
- a. 10%

- b. 25%
- c. 50%
- d. 63%
- e. 80%

d; Moderate

26. Which of the following is not a reason most people start up their own business?

- a. Ability to be the boss
- b. Ability to pursue their own passions
- c. Wants a rigid schedule
- d. Help people improve their lives
- e. Creative freedom

c; Easy

27. Which of these is generally not a tax-deductible expense?

- a. Automobile expenses
- b. Phone, internet, and other utility expenses
- c. Advertising
- d. A vehicle for personal use
- e. Bad debts

d; Easy

28. In talking about his businesses, Elon Musk stated:

- a. there's always something wrong
- b. risk is what you make it
- c. every day is amazing
- d. always expect to do it
- e. risk is what happens with you

a; Moderate

29. Which theorist believed that entrepreneurs are always looking for opportunities for change and to exploit those opportunities?

- a. Max Weber
- b. Peter F. Drucker
- c. Frank H. Knight
- d. Joseph Schumpeter
- e. Israel Kirtzner

b; Moderate

30. Which theorist believed that entrepreneurs take advantage of opportunities that others would miss, and are focused on discovering these opportunities?

- a. Israel Kirtzner
- b. Max Weber
- c. Frank H. Knight
- d. Joseph Schumpeter
- e. Peter F. Drucker

a; Moderate

Fill in the Blank

1. A/An _____ is the person or people who start a new business venture.
Entrepreneur; Easy
2. Entrepreneurial ventures tend to seek new and _____ opportunities.
Innovative; Moderate
3. The _____ occurred between the late 18th century to the middle of the 19th century.
Industrial Revolution; Moderate
4. The _____ is a global network of connected and communicating computers and servers.
Internet; Easy
5. _____ is a broad measure of the total value of a nation's produced goods and services.
GDP; Easy
6. _____ include paying wages, taxes, loan repayments, and payments to suppliers.
Financial obligations; Moderate
7. Small business owners may enjoy a great deal of _____, but they must still attend to the needs and demands of suppliers, employees, and regulators, while maintaining other obligations.
Autonomy; Hard
8. _____ expenses help to decrease a business' overall tax liability and burden.
Tax deductible; Moderate
9. _____ have a single business owner.
Sole proprietorship; Easy
10. It is not uncommon for an entrepreneur to turn a/an _____ into a hobby, and then eventually into a business.
Passion; Moderate

Essay Questions

1. Compare and contrast two of the different types of small businesses.

Student answers will vary.

Food Service and Home-Based. Food service businesses are a common type of home-based business, but not all home-based businesses are in the food service industry. Home-based businesses tend to be sole proprietorships or family owned businesses, while food service ones do lend themselves to this structural model, they are also frequently a franchised business opportunity. Starting a home-based food service business can be difficult, usually due to the need for a separate space that is used for the preparation of the food, and the attendant health and safety regulations that come with it; other food service businesses that operate in a stand-alone building or as a store front tend to come built with such facilities. With the proliferation of food trucks and third-party delivery services, food can be prepared at home and presented to customers in a variety of ways that were not necessarily available twenty to thirty years ago.

Hard

2. Explain the differences between a small business and an entrepreneurial venture.

Small businesses tend to deal with a specific, narrow set of inputs and outputs – they will frequently need the same supplies on a regular or semi-regular basis while producing a narrow range of products and/or services. There may be seasonal or other forms of variation in this, but small businesses tend to deal with known constraints and risks. Entrepreneurial ventures, on the other hand, tend to be expansionary and innovative, dealing with a variable set of inputs and a growing or changing set of outputs. The ultimate goals of the two types tend to be different as well. Small businesses tend to operate for the long-haul (if possible) for the purposes of stability, expanding when necessary, possible, and desirable. The owners of an entrepreneurial venture, however, may wish to see their venture become viable and then be sold at a significant profit, sometimes with that money then used to start up the next entrepreneurial venture.

Moderate

3. Explain the importance of small businesses to the American economy.

Small businesses make up approximately 50% of the Gross Domestic Product (GDP) of the United States in most years. They employ just under half of all people in the country, while accounting for just over half of all sales of goods and services. They have historically been a path for integrating immigrants into the country. They can propel both immigrants and native-born populations onto the path of financial independence and success. In some instances, a small business may grow and evolve into a large venture.

Moderate

4. Explain some of the benefits of owning your own business.

For many small-business owners, flexibility and autonomy are the major, driving reasons for going into business for themselves. The flexibility to set your own work schedule allows for parents, students, and those working a different job the opportunity to strike out on their own while still being tethered to something familiar. Personal autonomy is another important factor – not having to report to a boss can provide an invigorating feeling every day. These two factors fit with other, positive aspects of business ownership that include: the ability to pursue your own goals and passions, the time to watch something grow and develop that you created, the opportunity to improve, and the chance to invest in yourself and your family.

Moderate

5. Describe the positive and negative aspects of owning a small business.

Being able to set your own schedule is one positive aspect, but small business owners need to be flexible, because owning a small business will be demanding. While you do not necessarily have to deal with a boss, as you are your own boss, you do have to answer to different people: suppliers, customers, employees, and regulators. A small business, depending on the type and number of employees, could fall under the purview of certain local, state, and potentially even federal regulators and rule-making bodies. Money is also fundamentally important, as it is used to pay suppliers, employees, and ideally yourself; however, many small businesses struggle with cash-flow issues within their first few years. Some owners also rush into starting their own business, and do not have the financial capital to back it up, leading to cash-flow stability issues. However, even with all these issues, small businesses do account for more than 99% of all businesses in the United States; therefore, being successful in operating a small business involves managing the risks involved and having a backup plan if something unexpected occurs.

Moderate