BUS 101 Quiz 2 Covering Chapters 5 & 6

Please record your answers on a scan-tron. Please do not write on this test since you will return this test with your scan-tron. Each correct answer is worth 1 point.

1. Halle wants to start a business. She has two goals. First, given her limited personal wealth and eagerness to get started, she wants to get her business up and running with the least possible hassle and expense. Second, she wants to minimize her personal risk in the event that her company experiences difficulties. If Halle chooses a sole proprietorship, she would:
A. Achieve both goals since this form of ownership is both the easiest to form and the least risky.
B. Meet her first goal since sole proprietorships are easy and inexpensive to form. However, she would expose herself to personal risk because owners of sole proprietorships have unlimited liability.
C. Not achieve either goal since proprietorships are both costly to set up and subject to unlimited liability.
D. Achieve her second goal, since the owners of sole proprietorships are legally protected from losing more than the amount they invest in their company. However, she would find that the start-up costs would be higher than if she had incorporated her business.

2. Joe Jackson operates a sole proprietorship, but he is in poor health and may be unable to continue running the business. If Joe becomes incapacitated, his business:
A. Automatically continues under new management as a sole proprietorship.
B. Automatically converts into a public corporation with stock sold to interested investors.
C. Ceases to exist unless sold or taken over by Joe's heirs.
D. Becomes the property of the most senior employee who wishes to continue operating the firm.

3. Maya plans to open a shop specializing in foods and cultural items from the Middle East. She wants to be the firm's only general partner, but she is trying to get several friends to participate as limited partners. Apparently Maya wants to:
A. Limit her personal liability to the amount she personally invests in the company.
B. Keep all of the firm's profits.
C. Obtain a strong financial base for the firm while maintaining personal control over the firm's management.
D. Meet the legal requirements of the Uniform Partnership Act.

4. Jim is one of several general partners who own Beef ‘N Beer, a small chain of restaurants located in Missouri and Illinois. Jim is interested in converting the partnership into a master limited partnership. If he convinces other partners to go along with his idea, Beef ‘N Beer will:
A. Offer shares of ownership that are traded on a stock exchange much like a corporation.
B. Pay its taxes like a corporation.
C. Begin to operate much like a sole proprietorship.
D. Have to change its name to include the term Ltd. In its title to indicate its owners have limited liability.

5. Dane is a stockholder in SmallWorld, Inc., a C-corporation that manufactures amusement park rides. The company recently lost a major court decision and will probably be forced into bankruptcy. In fact, the damages awarded are so great that, even if all company assets are sold and the proceeds are used to pay its debts, SmallWorld is likely to still owe money to its creditors. If SmallWorld go bankrupt, Dane and the other stockholders will:
A. Be personally responsible for all remaining debts.
B. Lose their investment but nothing else.
C. Be entitled to full reimbursement of any investment losses.
D. Automatically qualify for federal reimbursement for any losses suffered by the firm.
6. Although it is a small company, Zorn Enterprises owns a large number of inexpensive rental housing units in Texas and Louisiana. Currently, the company is a chartered C-corporation, but the owners are interested in switching to an S corporation. After consulting a lawyer, they learned that Zorn Enterprises does not qualify to be designated as an S corporation. Which of the following characteristics of Zorn Enterprises would prevent it from becoming an S corporation?
A. The firm has fewer than 75 stockholders.
B. The firm is chartered in one state, but owns property in another.
C. The firm has only one class of stock, all owned by U.S. citizens.
D. The firm receives more than 70 percent of its income from rents and other passive sources.

7. Several years ago, Regis Corporation, a very large hair styling salon company purchased 60 "Your Father's Mustache" salons. Although this was initially an acquisition, the merging of these two businesses was a(n) ___________. Regis went on to purchase several hair care product companies. Joining forces with hair care product companies would represent a ______________.
A. conglomerate merger; horizontal merger
B. vertical merger; horizontal merger
C. horizontal merger; vertical merger
D. conglomerate merger; conglomerate merger

8. Adam is a major stockholder in Precision Transmission Services (PTS), a nationwide network of transmission repair shops founded by his father. Currently, PTS stock is sold on the open market, but Adam has talked to several relatives about his desire to get all of the PTS stock back in his family's hands. Adam is interested in ________________.
A. taking the firm private
B. a hostile takeover of the firm
C. converting the firm to a general partnership
D. forming a master limited partnership

**Mini-Case**

For as long as she could remember, Jenna Raiter's passion was cars. As a teenager, she spent hours with her dad tinkering with the family car, learning to change the oil and making minor repairs. She got a job at a local garage while still in high school. A few years after graduating from high school and completing the auto mechanics degree at a local community college, Jenna decided she wanted to be her own boss. She quit her job, borrowed some money from her dad, and began her own repair shop, the AutoMotion Garage. Jenna's hard work gradually attracted a loyal clientele of satisfied customers. Her success has her thinking about opening garages in two other locations, but she lacks the financial resources needed for expansion. Furthermore, the success of her business is forcing Jenna to spend more time managing the business and less time doing the actual technical work she still enjoys. She wants to find business partners who can help her with management and provide additional financial resources. She has approached a couple of friends she met in high school: Al Ternator and Lew Banfilter, to see if they would like to join the business.

9. With all these choices, Jenna's head is swirling with ideas. She knows that Al and Lew have expertise in business and management, but she also knows that she will need to read on her own for more information. Referring back to a textbook she had in her Introduction to Business class in College, she comes upon the following statement:
A. All forms of business ownership ultimately offer the same liability protection.
B. An S-Corporation is a suitable form of business ownership for all businesses, while an LLC is limited to ownership by U.S. citizens.
C. Even if you sell the rights to others to own a similar business, you still need to commit to a form of business ownership.
D. The least risky form of business ownership is still the sole proprietorship, and that is precisely the reason that so many are formed each year.
10. Marco is a franchisee with Daggies, a chain of sandwich shops. His business was doing well until several Daggies franchisees got in trouble and were forced to close their shops. Soon afterward, Marco's business deteriorated and he too was forced to close. This is an example of:
A. An economic shakeout at work.
B. The coattail effect.
C. The law of diminishing returns.
D. Management by exception.

11. Twenty-six years ago, several small vineyard owners in California joined voluntarily to market their grapes and wine in an attempt to get better prices. Over the years they expanded the organization to include other services such as buying and selling farm supplies and equipment and providing financial and technical services. The arrangement established by these vineyard owners is an example of a(n):
A. Closed corporation.
B. Joint venture.
C. Limited agricultural partnership.
D. Farm cooperative.

12. Which of the following people would be most interested in participating in a business organized as a cooperative?
A. Joe is intrigued by the idea of combining his time and resources with many other people to operate a business providing a good or service that they all will use.
B. Joan wants to be an owner of a business and share in its profits, but has no desire to take an active role in managing the company or participating in its daily operations.
C. Jeff wants to work for a government-owned business because he believes government ownership ensures a more equitable distribution of income and wealth.
D. Jennifer prefers to work for a charitable organization that emphasizes helping people who are less fortunate than she is.

13. Erin developed a new type of exercise equipment she calls the Tush N' Tone. After unsuccessfully searching for potential investors, she arranged a personal loan and borrowed additional money from her parents. Her willingness to continue believing in her idea and remain enthusiastic shows that Erin is:
A. characteristically self-nurturing.
B. better suited to managing a nonprofit organization.
C. unaware of the risks she was taking.
D. not a true entrepreneur.

14. Apple Computer's "smart team" is an example of a firm that succeeded by:
A. encouraging each manager to focus on a well defined area of the business and build his own specialized department.
B. bringing together a group of talented and experienced managers to conceive, develop, and market products.
C. emphasizing a low price and low cost strategy right from the beginning.
D. assembling a group of employees whose inexperience was a plus, because they did not come with the baggage and institutional ideas of larger companies.

15. Anna recently left a large insurance firm and opened a home-based business preparing medical transcriptions for doctors. Based on recent statistics, she can expect:
A. a negative reaction from friends and family who wonder when she will get a "real" job.
B. the emergence of affordable technology will make it less challenging for her to compete with larger firms offering the same service.
C. the government will discourage her attempts to create a home-based business in the hopes that she will opt for locating in an enterprise zone.
D. to find security, routine and a paycheck from her new enterprise.
16. Ketan is an intrapreneur for a multinational electronics company. As an intrapreneur Ketan:
A. is expected to recruit new managerial talent for his firm.
B. will use the firm's existing resources to develop new products.
C. is concerned mainly with improving the firm's public image.
D. will concentrate on creating new ventures that can be spun off to become independent firms.

17. Jennifer, a talented photography major started a corporate photography business. She planned to solicit jobs from large corporations who needed pictures for their annual reports and websites. Although filling a unique niche, Jennifer needed the security that the business would thrive and that she would earn enough to support herself and her child. She also hoped that she would spend less time each day calling on potential clients and more time doing the actual shoots. As her small business consultant, which of the following suggestions would you have for Jennifer?
A. Jennifer should either take the risk necessary to develop a small business, or go to work for someone else.
B. In the beginning, it's doubtful that Jennifer will realize ease of entry, security, and good profits. She needs to make plans in the event that one or more of these does not materialize quickly.
C. Photographers can take pictures of a multitude of things. It's probably not good strategy to limit her business to only photographing the needs of large corporations.
D. Jennifer should definitely make time for herself each day so that she does not experience burn-out. If she plans well, leaping into her own business will provide with her several hours of unstructured time each day where she can perfect her craft even more.

18. When Krystal Ginger graduates from culinary school she dreams of opening her own Asian fusion restaurant. Her other passion is skiing in Colorado, where she schedules four or five trips each year. As her small business advisor, you believe it necessary to provide her with information that will help her make good business decisions. Which of the following would be helpful for Krystal to know?
A. Restaurants are relatively easy businesses to start, but are labor intensive and also have the greatest failure rate.
B. Restaurants are not the easiest type of business to start, but once you get it going, you will have plenty of time for skiing.
C. Most restaurant owners get rich if they open their own, independent restaurant as opposed to starting a franchised operation.
D. Franchised operations will take less time on the part of the owner than a regular independently owned operation. If she opens a franchise, she will have more time for creativity in the business, and more time for skiing too.

19. Motivated by his desire to operate his own business, Nick considers purchasing an existing business. As he carefully weighs this option, he is likely to find that:
A. very few owners of small businesses have any interest in selling.
B. his potential for success would greatly improve if he started his own new firm.
C. the value of an existing business is determined by what the business owns, what it earns, and what makes it unique.
D. any entrepreneur willing to sell his/her business is experiencing serious financial problems.

20. Greg benefited from his experience working for an established private company that provided innovative lighting for large music venues. Although confident that he could start his own lighting business, he had limited capital to buy the necessary equipment needed to successfully compete with established companies. Which of the following strategies would best help Greg achieve his goal of business ownership?
A. Begin by offering to take over management of his employer's business, allowing the owner to enjoy some leisure time
B. Consider working for a major corporation, live modestly, and save until he has sufficient funds to start his business
C. Enroll in the closest university and apply for student loans
D. Open his business and trust that his work experience will bring him success even with insufficient capital
21. In order to improve his chances of small business success, Demitri prepared a business plan. Most often, a positive outcome of this exercise is:
A. the plan will meet federal reporting requirements of the Internal Revenue Service.
B. the plan ensures financing will be available from the Small Business Administration.
C. the plan enables Demitri to think carefully about all aspects of his business idea.
D. the plan will protect Demitri from failure.

22. Samantha recently applied for a microloan from the SBA. Although several criteria are important, the Small Business Administration's decision to grant or deny the loan will largely depend upon
A. her credit history and the collateral she can offer.
B. her age, since microloans are only available to senior citizens.
C. her previous record of business success.
D. the soundness of her business plan, and her integrity.

23. Bing came to the U.S. on a swimming scholarship. After a few months of frustration with trying to find swim goggles like he used in his native country, he started a web site that offered specialty goggles for swimming, skiing, and snowboarding. Before launching the web site and filling orders, Bing spent a few months going to swim meets and gathering preferences about goggles from other swimmers. Bing's actions:
A. showed that he had a ready market for this product.
B. demonstrated that he had little experience with this product.
C. showed that he was promoting the web site before it launched.
D. demonstrated his need to better understand the market.

24. As a small business owner, Tanika can't afford to provide her employees with the high wages and benefits offered by big corporations. One way to retain her employees and create a high level of motivation would be to:
A. constantly communicate with them that "at least they have a job."
B. adopt a policy of promoting workers who have been employed the longest.
C. empower her employees to develop their own ideas.
D. hire only family members, since they are more loyal.

25. Labels Plus, LLC, exports specialty printing equipment for the labeling, flexible packaging, and carton industry. Due to increased support from ________, this company's sales to Brazilian companies and other global opportunities have significantly increased.
A. its newly revised web site
B. Department of Commerce's Bureau of Industry and Security
C. the FDA
D. local politicians

26. Antoine is considering marketing his bicycles in Brazil. If he enters the Brazilian market, he is likely to learn that
______________.
A. some cultures like dealing with individuals from smaller companies rather than large companies
B. he will not be able to keep up with demand
C. most foreign cultures prefer large company relationships to small company relationships
D. there is strong resistance of Brazilian firms with respect to American products