

Better Business, 3e (Solomon)

Chapter 1 Business Basics

1) When a company's revenue is greater than its expenses, it means that _____.

- A) the company earns a profit
- B) the company spends more than it earns
- C) the company's income is decreasing
- D) the company needs to increase its spending
- E) the company must increase its productivity

Answer: A

Explanation: A) A company earns a profit when it takes in more revenue (earnings) than it spends. If a company spends more than it earns, it does not make a profit. A company can make a profit even if its income is decreasing, as long as its earnings continue to exceed its expenses. A profitable company may or may not need to increase its spending, depending on its business goals.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

2) The physical products that a business offers are called _____.

- A) goods
- B) services
- C) assets
- D) devices
- E) intangible

Answer: A

Explanation: A) By definition, physical products that a business offers are called *goods*.

Services are nontangible products, for example, hair styling or bookkeeping. A physical product may be an asset to the business or the purchaser, but it is a more general term that could include any valuable product or aspect of the business. A device is a physical product, but not all physical products are devices. For instance, pizza would be considered a physical product, but a pizza is not a device.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

3) Emma bought an MP3 player and a portable DVD player. These products are called goods because _____.

- A) they do a good job of satisfying a customer's needs
- B) they are physical or tangible products
- C) they are produced in an economical offshore factory
- D) they can be sold either in a store or online
- E) they are good at increasing a company's profit margin

Answer: B

Explanation: B) Goods are physical or tangible products offered by a business. They may or may not do a good job of satisfying a customer's needs, although they must do so if a business is to be successful. Goods are typically produced in a factory, but not in any particular location. It is true that goods can be sold either in a store or online, or by other means, such as direct marketing; however, other business offerings, such as services, can also be sold in a store or online.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

4) Jose called an electrician to repair some appliances in his home. Which of the following terms BEST describes the electrician's repairs?

- A) a service
- B) a good
- C) a benefit
- D) an appointment
- E) a liability

Answer: A

Explanation: A) An electrical repair is an example of a nontangible business product called a *service*. An electrical repair is not a good, which is a tangible physical product. Although the repair might involve the installation of a physical product, or good, the primary offering of the electrician is the service he provides by coming to a location, identifying the problem, and if necessary, making a repair. Such a service may be a benefit to the customer, but any business offering, physical or nontangible, could be a benefit. Although electricians typically provide services by appointment, "appointment" does not define the type of product the electrician provides.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

5) Chris orders a salad at a restaurant. What is the BEST definition of what he is buying?

- A) Chris is buying a good.
- B) Chris is buying a service.
- C) Chris is buying a service, but not a good.
- D) Chris is buying neither a good nor a service.
- E) Chris is buying both a good and a service.

Answer: E

Explanation: E) Chris is buying a combination of products offered by the restaurant. He is buying a good (the salad) as well as the services of preparing and serving the salad.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Application

6) Profits allow a company to _____.

- A) increase productivity
- B) lower employee wages
- C) reduce its span of operations
- D) disregard concern about expenses
- E) lower standards of living for the entire society

Answer: A

Explanation: A) Profits allow a company to reward employees, increase productivity, and expand into new areas. To maintain productivity, a company would need to remain concerned about controlling expenses, and maintain or increase employee wages. Profits would be likely to allow for growth in its operations, not a reduction.

Diff: 2

AACSB: Reflective Thinking, Analytic Skills

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Application

Learning Outcome: Explain how economic performance is monitored

7) Nina's furniture store has had a successful year and made a significant profit. Which of the following actions using Nina's store profits would BEST increase productivity?

- A) Pay for utilities and inventory in advance.
- B) Develop a website that would enable customers to place orders online.
- C) Hire more staff.
- D) Create an emergency fund.
- E) Service her community through social and educational means.

Answer: B

Explanation: B) A website with an online shopping function would increase productivity by generating sales without requiring additional staff time. It might also provide more options for customers, since the online store could carry more items than could be viewed in the store. Hiring more staff could reduce productivity by increasing the labor costs associated with selling items. Paying for expenses in advance or creating an emergency fund would have neither a positive nor negative impact on productivity.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Application

Learning Outcome: Explain how economic performance is monitored

8) Which of the following statements is true of a not-for-profit organization?

- A) It makes profits.
- B) It does not pay expenses.
- C) It can earn excess revenue.
- D) It cannot operate like a business.
- E) It rewards the proprietor of the organization with earned profits.

Answer: C

Explanation: C) A not-for-profit organization does not make profits. However it does pay expenses, and it may operate like a business in most respects. A not-for-profit that takes in more earnings than it needs to spend on expenses will use that excess revenue to further its stated mission.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

9) The various resources used to create a company's goods and services are collectively referred to as _____.

- A) raw materials
- B) factors of production
- C) supplies
- D) inventory
- E) intellectual property

Answer: B

Explanation: B) Factors of production are the resources used to produce goods and services. They include five factors: labor, natural resources, capital, entrepreneurial talent, technology, and intellectual property. Raw materials, supplies, and inventory might be included in the natural resources factor, but do not encompass all the resources needed for production.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

10) Labor is a factor of production that refers to any physical or _____ work people contribute to a business's production.

- A) intellectual
- B) emotional
- C) unionized
- D) entrepreneurial
- E) technological

Answer: A

Explanation: A) Labor is a factor of production that refers to any physical or intellectual work that people contribute to a business's production. Entrepreneurial work might be included in a company's labor costs, but such work could be either physical or intellectual, and therefore would not necessarily describe a type of work that was not physical. A company's labor force could be either unionized or nonunionized, independent of the type of work, whether physical or intellectual. Emotional work is not considered part of a business's labor requirements.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

11) Which of the following is an example of real capital?

- A) a business loan
- B) computer software
- C) natural gas
- D) a manufacturing plant
- E) personal savings

Answer: D

Explanation: D) Real capital refers to the physical facilities used to produce goods and services. Thus, a manufacturing plant would be an example of a business's real capital. Computer software is an example of the technology factor of production. Natural gas is an example of the natural resources factor of production. Business loans and personal savings are examples of capital, but of financial capital rather than real capital.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

12) Teresa and Luis are getting married next month. Which of the following elements of their wedding does NOT require a natural resource for its production?

- A) the wedding rings
- B) the wedding vows
- C) the wedding cake
- D) the bridesmaids' dresses
- E) the table centerpieces

Answer: B

Explanation: B) The wedding vows are intangible statements created in the minds of the bride and groom and do not require a physical raw material for their production. Wedding rings are composed of natural resources such as metal or gems. The cake is made from agricultural ingredients that depend on natural resources such as soil. The bridesmaids' dresses may be made from natural fabrics, such as cotton, which requires soil for growing, or synthetic fabrics whose production depends on water and natural energy sources.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Application

13) Robert wants to upgrade his real estate company's computer systems. Which of the following factors of production would Robert find LEAST useful for his project?

- A) financial capital
- B) technology
- C) real capital
- D) labor
- E) human resources

Answer: C

Explanation: C) Robert is not producing any products with his upgrade project, so he would not require real capital, that is, a facility for producing goods. Financial capital, labor (or human resources), and technology would all be necessary to develop or purchase and install the upgraded computer systems.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

14) Melinda is a store owner who buys items online to sell in her shop. Which of the following factors of production is BEST illustrated in Melinda's use of the Internet?

- A) capital
- B) labor
- C) technology
- D) entrepreneurs
- E) natural resources

Answer: C

Explanation: C) Technology refers to items and services such as smartphones, computer software, and digital broadcasting that make businesses more efficient. Melinda's use of the Internet for purchasing store inventory reflects her use of technology. Since Melinda is making the purchases herself, labor is not a factor. Capital may be involved in the purchase, but that would be true of any purchase, not specifically online purchases. Melinda may be an entrepreneur, but her online purchasing behavior is not a defining characteristic of entrepreneurship.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

15) The economy of the United States is _____.

- A) market-based
- B) government-owned
- C) socialistic
- D) not-for-profit
- E) noncompetitive

Answer: A

Explanation: A) The United States' economy is market-based, that is, there is an emphasis on economic freedom and a limit on government intervention. Therefore, the U.S. economy would not be considered either government-owned or socialistic. The U.S. economy is intended to support profitable business, and a country's economy, unlike an individual organization, would not be labeled "not-for-profit."

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Compare and contrast different economic systems

16) Which of the following is NOT a benefit of business competition?

- A) It may lead to a wider variety of goods and services.
- B) It may lead to higher quality goods and services.
- C) It may lead to a limited variety of goods and services.
- D) It may lead to cheaper goods and services.
- E) It may lead to decreased customer satisfaction.

Answer: C

Explanation: C) The United States' private enterprise system is based on the belief that competition benefits consumers because it motivates businesses to produce a wider variety of better and cheaper goods and services. Therefore, competition would not benefit consumers if it resulted in a limited variety of goods and services.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Compare and contrast different economic systems

17) Which of the following BEST describes competition?

- A) Two or more companies compete with one another for greater federal, state, and local subsidies.
- B) Two or more companies compete with one another to attract customers and gain an advantage.
- C) Two or more companies compete with one another to maintain a monopoly.
- D) Two or more companies compete with one another to influence trade policy.
- E) Two or more companies compete with one another to limit the variety of goods and services.

Answer: B

Explanation: B) Competition arises when two or more businesses contend with one another to attract customers and gain an advantage. Even in a free-market economy, it is possible that two or more business might be competing for preferential government treatment such as tax breaks, though that is not a defining characteristic of competition, which is primarily focused on attracting customers. Two or more businesses might *cooperate* with one another, rather than compete, to maintain a shared monopoly position or attempt to influence trade policies.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Compare and contrast different economic systems

18) Leroy owns a small hardware store that is known for its high level of customer service. A large chain home improvement store has just opened up in his community. Which of the following would BEST help Leroy deal with his new competitor?

- A) Pay his employees "under the table" to avoid costly payroll taxes and keep prices lower.
- B) Close the business, since small stores cannot compete effectively with chain stores.
- C) Advertise aggressively to increase consumer awareness of his reputation for service.
- D) Move his store in order to be farther away from the large store.
- E) Raise their prices, to show that their customer service is worth paying a premium for.

Answer: C

Explanation: C) Leroy's first step should be to advertise aggressively to remind customers of the benefits of patronizing his store. Violating tax laws can have severe consequences, including losing the business. Moving his store would be costly and might not improve Leroy's competitive position. Closing the business should be undertaken only if Leroy is unable to convince customers that the high quality and convenience his store offers is more valuable than the lower prices offered by the larger store.

Diff: 2

AACSB: Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

19) Competition affects companies in all of the following ways EXCEPT _____.

- A) forcing them to deliver customer satisfaction
- B) forcing them to improve their products
- C) forcing them to aggressively promote their brands
- D) forcing them to lower their prices
- E) forcing them to increase their production levels

Answer: E

Explanation: E) Competition does not force companies to increase their output. Producing more products would be of no competitive advantage unless the products were of high quality and there was sufficient demand to justify increase production levels. In order to compete more effectively, companies must either improve their products or lower their prices, or both, relative to their competition. They must also promote their products aggressively to convince consumers that their product is better or cheaper than that of their competitors.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

20) Which of the following would MOST likely happen to companies that are less efficient than their competitors?

- A) They would continue to do business as usual.
- B) They would close down.
- C) They would be taken over by the government.
- D) They would receive additional money from investors.
- E) They would become a target for a hostile takeover.

Answer: B

Explanation: B) Companies that are not very profitable are considered inefficient and cannot survive if they continue to operate as usual. They must find ways to increase revenue and/or reduce expenses. Otherwise, investors will not be willing to provide funding, and if a company remains unprofitable, it will be forced eventually to shut down. In a competitive environment, government usually plays a limited role, so it is unlikely that an unsuccessful business would be taken over by the government.

Diff: 2

AACSB: Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

21) Patricia owns a small electronics store in a rural area. She carries two different brands of weather radios that are equally priced. One model is selling well, but the other does not seem to be attracting customers. What should Patricia do?

- A) Stop advertising the radio that is not selling well.
- B) Donate the poorly selling radios to local schools.
- C) Reduce the price of the model that is not selling well.
- D) Try to discourage customers from buying the model that is selling well.
- E) See if a rival electronics store will purchase the poorly selling radios.

Answer: C

Explanation: C) In a competitive environment, the most useful sales strategy for a less desirable product would be to reduce the price in order to improve its desirability. Advertising should not be less aggressive, because it would be important to make sure that consumers are aware of the product, especially if the price is being reduced. Reducing the price of the less desirable model would offer Patricia's customer's a lower-priced radio that could encourage more overall radio purchases. Since Patricia is in business to make a profit, it would not be advisable for her to take a total loss by donating the poorly selling radios.

Diff: 2

AACSB: Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

22) Jarvis runs a restaurant that has had a lot of complaints from customers lately. Jarvis is a strict manager and prefers to make all the decisions himself. A concerned friend recommends that Jarvis delegate more decision-making responsibility to his employees. Which of the following would be the MOST likely result of Jarvis' delegating responsibility?

- A) Customers will be upset because the restaurant is being run differently.
- B) Customer satisfaction will improve because employees can be more responsive to customer needs.
- C) Customer satisfaction will decrease because employees will make the wrong decisions.
- D) Employees will quit because of the change in Jarvis' management style.
- E) The restaurant will need to increase its prices.

Answer: B

Explanation: B) In a competitive environment such as the restaurant industry, delegating responsibility to employees is a competitive advantage since it allows customer concerns to be addressed when they come up rather than making customers wait until Jarvis can attend to them. Customers are unlikely to be upset by an improvement in service, and employees are less likely to leave a job in which they feel empowered to make decisions. Employees may not always make the same decisions that Jarvis would, but overall, customers will be happier, employees will have higher morale, and Jarvis will have time to deal with more strategic aspects of managing his business.

Diff: 2

AACSB: Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

23) Which of the following refers to an interconnected system of different demographic factors?

- A) cultural environment
- B) economic environment
- C) political environment
- D) social environment
- E) social networking

Answer: D

Explanation: D) By definition, a social environment is an interconnected system of different demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics. Cultural, economic and political environments have an impact on businesses, but they are not environments that are primarily defined in terms of demographics. Social networking describes a set of services focused on building and supporting social relationships among people, for example, connecting old friends or people who share activities.

Diff: 1

AACSB: Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

24) Which of the following social issues would LEAST affect the environment in which U.S. businesses operate?

- A) an aging American population
- B) the popularity of reality television
- C) increasing ethnic diversity in the workforce
- D) emergence of the green movement
- E) diversity initiatives including gender and sexual orientation

Answer: B

Explanation: B) A social environment is an interconnected system of different demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics. Such characteristics are always in flux, affecting businesses because shifting demographics change the nature of consumers that businesses must attract. Three significant issues surrounding the social environment are the aging population, with people between the ages of 44 and 62 making up the largest population segment in the United States; increasing diversity, with one in three residents of the United States a minority; and an increasing focus on environmental issues, creating a demand for more green products and a reduction in use of fossil fuels by businesses. Reality television is definitely a social phenomenon but has a limited impact on the social environment in which businesses operate.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

25) Which of the following problems is potentially posed by an aging population?

- A) higher taxes
- B) lower deficit
- C) labor surpluses
- D) fewer business opportunities
- E) decreased demand for social services

Answer: A

Explanation: A) Since retirees typically do not have as much income as younger individuals, they pay lower taxes and spend less. At the same time, they rely on government programs like Medicare that are supported by tax dollars. Therefore, the government may need to raise taxes overall. It may also need to maintain or increase deficit spending to make up shortfalls caused by lower tax revenues from retirees and greater demands on government benefit programs such as Medicare and Social Security. As the large group of baby boomers retires, there is also likely to be shortage of qualified workers rather than a labor surplus. However, on the positive side, the increasing size of the aging population will create more business opportunities to cater to the specific needs of senior citizens.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

26) Which of the following events would MOST likely change the racial demographic of a population?

- A) a political scandal
- B) an aging population
- C) an economic slump
- D) an influx of immigrants
- E) the green movement

Answer: D

Explanation: D) Immigrants to a country tend to be of a different racial or ethnic background than that of a country's majority population. Therefore, an influx of immigrants would be most likely to affect the racial composition of a country's population. Neither a political scandal, an aging population, an economic slump, nor the green movement would cause a significant change in a country's racial demographics.

Diff: 1

AACSB: Multicultural and Diversity Understanding

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

27) Which of the following would MOST likely be part of a company's diversity initiative?

- A) ethics training
- B) a minority network
- C) 360-degree feedback
- D) corporate history
- E) sustainability education

Answer: B

Explanation: B) To be competitive in an increasingly diverse world, companies must develop a diversity initiative that helps the company manage, retain, and promote a diverse workforce. A diversity initiative might include a nondiscrimination policy, minority network, or diversity education. Ethics training, 360-degree feedback, corporate history, and sustainability education may be valuable to all employees, including minorities and women, but would not be part of a formal diversity initiative.

Diff: 1

AACSB: Multicultural and Diversity Understanding

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

28) In a business environment, the term "minority" applies to more than just people of different ethnicities. Minority groups represent all of the following EXCEPT _____.

- A) a person's political party
- B) a person's gender
- C) a person's culture
- D) a person's sexual orientation
- E) a person's disability

Answer: A

Explanation: A) Today, the term "minority" applies to more than just people of different ethnicities. Some minority groups represent a person's gender, culture, religion, sexual orientation, or disability, all of which should be considered in a company's diversity initiative. However, a person's political party is not considered a minority group.

Diff: 1

AACSB: Multicultural and Diversity Understanding

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

29) Tom is a college senior who would like to get a "green-collar" job when he graduates. Which of the following positions is he LEAST likely to apply for?

- A) a job as a wind turbine engineer
- B) a job installing solar panels
- C) a job as manager at an oil refinery
- D) a job weatherproofing houses
- E) a job selling hybrid cars

Answer: C

Explanation: C) A "green-collar" job is one that contributes to improving the environment. New industries and technologies such as wind turbines, hybrid cars, and solar panels are examples of business opportunities that can revitalize the U.S. economy while improving the environment; therefore, jobs in those areas would be considered green-collar jobs. Weatherproofing houses conserves energy and reduces toxic greenhouse emissions into the atmosphere, so that would also be an example of a green-collar job. Despite efforts by the oil industry to be more environmentally responsible, oil refinery emissions remain a source of pollution; therefore, a job at an oil refinery would be least desirable to someone looking for green-collar employment.

Diff: 2

AACSB: Reflective Thinking, Analytic Skills

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

30) Addison wants her new t-shirt store to be environmentally friendly. With the concept of the green economy in mind, which of the following business initiatives would BEST make her business greener?

- A) mail out paper fliers advertising her business
- B) raise prices to include the cost of a donation to a green nonprofit organization
- C) sell t-shirts with environmental slogans
- D) install solar panels on her store's roof to provide electricity
- E) giving a discount to customers who claim to be environmentally conscious

Answer: D

Explanation: D) Powering her store with solar energy would cut down on Madison's contribution to carbon emissions. She should avoid sending out paper flyers since the paper uses up trees and can contribute to litter or landfill waste if not recycled properly. Donating to an environmental organization or making environmentally themed t-shirts may be worthwhile projects but would not directly improve the environment.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

31) _____ is the movement toward a more interconnected and interdependent world economy.

- A) Globalization
- B) The green movement
- C) Social networking
- D) Multiculturalism
- E) Diversity initiative

Answer: A

Explanation: A) By definition, globalization is the movement toward a more interconnected and interdependent world economy. This means that economies around the world are merging as technology, goods and services, labor, and capital move back and forth across international borders. Multiculturalism reflects an appreciation of cultural differences both within the United States and internationally but does not focus on economic concerns.

Diff: 1

AACSB: Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

32) Which of the following factors do multinational companies MOST often look for in a country when they are considering a location for offshore manufacturing?

- A) a diverse culture
- B) strict government regulations
- C) low production costs
- D) low cost of living
- E) unstable political climate

Answer: C

Explanation: C) Developing countries tend to have less expensive labor than a country like the United States, allowing goods to be produced more cheaply. Companies interested in operating overseas would not favor countries with strict government regulations that might make doing business more difficult. Other factors, such as a diverse culture and low cost of living, may be true of developing countries, but lower production costs are the ultimate reason why many multinational companies send work overseas. An unstable political climate is actually a risk of globalization.

Diff: 2

AACSB: Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

33) Globalization is a controversial subject for many people because _____.

- A) it allows U.S. companies to import and export goods from anywhere in the world
- B) it increases the cost of goods and services in the United States
- C) it results in the closing of some U.S. manufacturing facilities
- D) it allows companies of any size to compete globally
- E) it stabilizes the value of the U.S. dollar

Answer: C

Explanation: C) Globalization has brought many perceived benefits to the United States economy, along with some perceived drawbacks. A globalized world economy has made it possible for U.S. companies large and small to do business in other countries and to export or import goods to and from other countries. Low labor costs in countries such as China allow the U.S. consumer to purchase imported goods at low cost. However, lower labor costs offshore has caused many U.S. companies to relocate their manufacturing plants to overseas facilities, resulting in significant job losses in the United States.

Diff: 1

AACSB: Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

34) _____ refers to a company's choice to relocate its production facilities overseas or subcontract at least some of the components to foreign companies at low costs.

- A) Globalization
- B) Diversifying
- C) Downsizing
- D) Contracting
- E) Offshoring

Answer: E

Explanation: E) Offshoring refers to a company's choice to relocate its production facilities overseas or subcontract at least some of the components to foreign companies at low costs. The resulting lowered production costs allow prices of consumer goods to go down; however, plant relocations away from the U.S. cause some American workers to lose their jobs. Thus, downsizing U.S. employees is often a result of a company's decision to offshore its manufacturing facilities, though it is not the correct term for a company's relocation of facilities overseas.

Diff: 1

AACSB: Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

35) Which of the following is NOT a danger to U.S. companies posed by globalization?

- A) increased competition from international companies
- B) security and patent protection concerns
- C) stabilization in the value of the U.S. dollar
- D) unstable political climates in foreign countries
- E) loss of U.S. jobs due to offshoring

Answer: C

Explanation: C) Increased competition, security and patent protection concerns, loss of U.S. jobs, and unstable political climates in countries where U.S. companies do business are all dangers posed by globalization. However, a stabilized U.S. dollar would not pose a threat and instead might be advantageous for a U.S. company operating globally.

Diff: 2

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Explain the benefits and challenges of engaging in international business

36) Which of the following BEST enables all companies, regardless of size, to compete in the global market?

- A) effective marketing
- B) a talented workforce
- C) government subsidies
- D) technological advances
- E) "green" policies

Answer: D

Explanation: D) Technologies like the Internet make it possible for even the smallest company to do business almost anywhere in the world. While effective marketing, a talented workforce, and government subsidies can help a company to compete globally, none of these factors can match the ability of technology to facilitate global commerce.

Diff: 2

AACSB: Dynamics of the Global Economy, Use of Information Technology

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Identify the different types of technologies used in business and describe their uses

37) "Computers are outdated after three years and obsolete after five." What aspect of technology does that statement BEST represent?

- A) Technological innovations can be used to keep a company well-organized.
- B) Technological innovation is changing the focus of how many businesses are run.
- C) Technological innovation can help streamline businesses and cut costs.
- D) Technological innovation is necessary in order to remain competitive.
- E) Technological innovation is expensive and time-consuming.

Answer: E

Explanation: E) Technological advances can be used to keep a company flexible, organized, and well connected—either with customers or employees. Technology is fundamentally changing the way businesses are run, and, therefore, technology is necessary in order for businesses to remain competitive. But technology's advantages come with a hefty price tag: Keeping up with the pace of technology is an expensive and time-consuming operation—as anyone who owns an aging personal computer will agree.

Diff: 1

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

38) Which of the following is NOT an advantage of technology?

- A) streamlines businesses
- B) cuts costs
- C) fosters a more personal work environment
- D) helps employees work more efficiently
- E) keeps a company well-connected

Answer: C

Explanation: C) Although technology can help streamline businesses, cut costs, keep connected, and increase employee productivity, technology does not contribute to a more personal work environment.

Diff: 1

AACSB: Use of Information Technology

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

39) Carla wants to start a new software company, but she lives in a remote community where few skilled software programmers live. Which of the following is the BEST cost-effective strategy for building her workforce?

- A) Produce only software she can create herself.
- B) Use the Internet and other technologies to hire remote employees who want to telecommute.
- C) Offer free computer programming training programs to the local workforce.
- D) Relocate to an urban area where there are many software programmers.
- E) Wait until more software programmers move to the area.

Answer: B

Explanation: B) The most cost-effective option is for Carla to use the Internet and other technologies to hire programmers who will then telecommute. This approach will save Carla the expense of maintaining an office for programmers, and she will have access to a worldwide pool of employees. Thus Carla will not be limited by her location or her personal capacity to produce software.

Diff: 2

AACSB: Dynamics of the Global Economy, Use of Information Technology

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Identify the different types of technologies used in business and describe their uses

40) Bill is an information technology manager for a large firm. His company needs to install a new software program, which he orders from his company's online supplier. This is an example of _____ e-commerce.

- A) business-to-business
- B) business-to-customer
- C) business-to-consumer
- D) business-to-supplier
- E) consumer to consumer

Answer: A

Explanation: A) Since Bill is ordering the software from a business on behalf of his company, the transaction is considered business-to-business. Had he ordered software for his personal use, it would have been considered a business-to-consumer transaction.

Diff: 1

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Identify the different types of technologies used in business and describe their uses

41) Who is legally responsible for protecting the privacy of consumer information that businesses store online?

- A) Social Security Administration
- B) Internal Revenue Service
- C) Internet service providers
- D) consumers
- E) business owners

Answer: E

Explanation: E) It is the responsibility of businesses who store personal information of consumers to take measures to protect consumers' online privacy. Neither government agencies nor Internet service providers are responsible for data that businesses store; they are, however, responsible for the security of information about individuals that they themselves store.

Diff: 2

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

42) Which of these qualities BEST explains why a specialty shop is often classified as a local business?

- A) It is not able to borrow funds for expansion.
- B) It accepts cash, checks, and credit cards as forms of payment.
- C) It is a one-of-a-kind operation and relies on local consumers to generate business.
- D) It sells only products that are made locally.
- E) It does not need to carry liability insurance.

Answer: C

Explanation: C) Local businesses are concentrated in one specific area and are usually a one-of-a-kind business. A local business is not defined by its ability to borrow funds or by the methods of payment it accepts. A specialty store may specialize in local products, but most local businesses offer goods or services that can be purchased elsewhere. Like other businesses, a specialty shop needs liability insurance, which will protect the company in the event of stolen or damaged property or if an employee is injured on the job.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Describe the role of small businesses in the economy

43) The WAWA chain of convenience stores has over 500 locations in five states in the mid-Atlantic region of the United States. WAWA is an example of _____.

- A) a local business
- B) a regional business
- C) a national business
- D) a state business
- E) a specialty business

Answer: B

Explanation: B) Regional businesses serve a wider area than local businesses do, although they do not serve a national or international market. Businesses that operate multiple locations in a single state are still referred to as regional businesses.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Describe the role of small businesses in the economy

44) Which of the following poses the MOST COMMON financial threat to local and regional businesses?

- A) employee retention
- B) undercapitalization
- C) low productivity
- D) limited customer base
- E) inefficiency

Answer: B

Explanation: B) The most common challenge for local and regional businesses is managing money. A particular threat is undercapitalization, which occurs when a business owner cannot gain access to adequate funding. If the business cannot afford to produce goods or buy services, it will go bankrupt. Employee retention, low productivity, inefficiency, and access to customers may pose challenges for local and regional businesses, although not as severe as undercapitalization.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Describe the role of small businesses in the economy

45) An Old Navy store is an example of a _____ business.

- A) national
- B) multinational
- C) local
- D) regional
- E) boutique

Answer: A

Explanation: A) Stores like Old Navy are considered national businesses in that they have many locations throughout the United States but do not serve an international market.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

46) A(n) _____ is the process by which products, information, and money move between supplier and consumer.

- A) operational flow
- B) delivery system
- C) funneling mechanism
- D) supply chain
- E) product flow

Answer: D

Explanation: D) By definition, a supply chain is the process by which products, information, and money move between supplier and consumer. The product flows from supplier to manufacturer to wholesaler to retailer to consumer. The larger the business, the more complicated the supply chain becomes.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

47) Which of these characteristics is NOT applicable to a multinational company?

- A) It provides goods or services to international consumers.
- B) It may serve only one country but have suppliers or facilities in other countries.
- C) Its employees must speak multiple languages.
- D) It may adapt its operations to fit the cultures of the countries in which it operates.
- E) It is subject only to the laws of the country in which the company originated.

Answer: C

Explanation: C) A multinational company provides goods and services to international consumers. It may serve only one country but have suppliers or facilities in other countries. Multinationals typically modify their operations in certain ways to fit the culture of the countries in which they do business, but their employees do not necessarily speak multiple languages.

Diff: 1

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

48) Humberto is a supply chain manager for a multinational company. Which of the following challenges should he be LEAST concerned about?

- A) His office is missing certain business supplies.
- B) Products may get backed up in a long supply chain.
- C) There is a lack of communication among companies in the chain.
- D) The number of customer returns is very large.
- E) Products need to pass through multiple warehouses.

Answer: A

Explanation: A) As supply chain manager, Humberto should be least concerned about how well stocked his office is with business supplies. Instead, he should be concerned about keeping products flowing smoothly from one part of the supply chain to another. Keeping the supply chain flowing requires good communication among all the parties involved in the supply chain, including manufacturing facilities and warehouses. Humberto should also be concerned if there are a large number of customer returns, because he would need to arrange for that merchandise to be returned to the retailer. If not managed properly, long supply chains can be inefficient because products and materials have to pass through more warehouses and sustain more shipments.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Application

Learning Outcome: Explain the benefits and challenges of engaging in international business

49) Which of the following is often imposed by governments on multinational companies operating in their countries?

- A) laws regarding product diversity
- B) laws regarding tax exemptions
- C) laws regarding minimal profits
- D) laws regarding quality control
- E) law regarding promotional strategies

Answer: D

Explanation: D) Multinational businesses must adhere to all the laws and regulations of each country where they conduct business. Some foreign countries have strict laws regarding quality control and safety. Countries may often impose taxes, not tax exemptions, on foreign businesses. However, foreign governments do not have jurisdiction over product mix, retail pricing, promotional strategies, or profits of multinationals operating in their countries.

Diff: 2

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

50) Your life is similar to a small company in that it requires careful planning, precise record keeping, and _____.

- A) a good memory
- B) openness to change
- C) an outgoing personality
- D) physical fitness
- E) a current resume

Answer: B

Explanation: B) Everyone runs at least one business—the business of life. Each person's life is complicated and complex. Similar to a small business, your life requires careful planning, precise record keeping, and openness to change. Openness to change is important in business and in life because both contain unpredictable events. Other factors such as a good memory, outgoing personality, and physical fitness can be useful both in business and in life, but they are not essential requirements for success in business.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-5 How do life skills translate to the business environment?

Classification: Conceptual

51) Which of the following is an example of how today's social environment may affect individuals' lives?

- A) It may help them learn from people who are different from them.
- B) It may help them afford less energy-efficient cars.
- C) It may reduce their taxes as demand for government services declines.
- D) It may limit the number of entrepreneurial opportunities.
- E) It may lead them to sell items online.

Answer: A

Explanation: A) The social environment in the United States is always changing. Three major trends are an aging population, increasing population diversity, and the green movement. As the United States becomes more ethnically and racially diverse, individuals have increasing opportunities to interact with, and learn from, people who are not like them. Because of the green movement, products increasingly will be made in a way that reduces harm to the environment; therefore, the social environment would be more likely to promote the manufacture of affordable cars that are more energy efficient, not less. Because of the aging population, a growing number of retirees on reduced incomes will be paying lower taxes while placing increasing demand on government programs such as Medicare. To continue to fund such programs, it is likely that at some point the government will need to raise taxes, not reduce them.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-5 How do life skills translate to the business environment?

Classification: Conceptual

52) As more profit is generated, a company is able to increase its productivity.

Answer: TRUE

Explanation: As a company's profits increase, profits can be invested in actions that are likely to increase productivity, such as rewarding employees and upgrading facilities and equipment.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

53) A university, an inner city health clinic, and a church are all run specifically to generate profits.

Answer: FALSE

Explanation: These institutions are all nonprofit organizations that are run to further a cause such as health care or education. Revenues that they may receive in excess of their expenses are used to further their respective missions.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

54) When a business is profitable, the whole society benefits.

Answer: TRUE

Explanation: When a business earns profits, many people benefit. Owners benefit, as do employees who may benefit from bonuses or pay increases. Society as a whole benefits from the employment opportunities the business provides, as well as the spending and income it generates in the economy.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

55) Barbara owns a bakery in Boston. When her business reached a certain level of profit, she decided to open three more bakeries in the area. Many businesses, like Barbara's, are able to expand as they earn more profits.

Answer: TRUE

Explanation: Profit is the money left over after expenses are paid out of revenues. This money can be reinvested in the business in a variety of ways, including opening new retail locations, upgrading equipment, and hiring additional employees.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Application

Learning Outcome: Explain how economic performance is monitored

56) Not all businesses provide a product.

Answer: FALSE

Explanation: All businesses provide a product. Some businesses offer physical products, which are referred to as *goods*. Other businesses offer nontangible products, called *services*.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

57) Car insurance is an example of a good.

Answer: FALSE

Explanation: Car insurance is a nontangible product; therefore, it is a service, not a good, which would be a physical product.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Application

58) To become successful, a company should keep pace with the latest technology.

Answer: TRUE

Explanation: Successful companies keep pace with technological processes, thereby harnessing new knowledge, information, and business strategies. Unsuccessful companies typically fail because they have not kept pace with the latest technology and techniques.

Diff: 1

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

59) Real capital refers to the money used to facilitate a business enterprise.

Answer: FALSE

Explanation: Real capital refers to the physical facilities, such as a manufacturing plant, used to produce goods and services. The money used to facilitate a business' operations is referred to as financial capital.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

60) The private enterprise system assumes that competition benefits consumers.

Answer: TRUE

Explanation: The private enterprise system is based on the assumption that when businesses are free to compete with one another, consumers will benefit. Competition among businesses tends to benefit the consumer since businesses try to increase revenues by offering products that are better and cheaper than those of their competitors.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Compare and contrast different economic systems

61) Competition arises when two or more businesses contend with one another to attract customers and gain an advantage.

Answer: TRUE

Explanation: In a market-based economy, businesses are encouraged to compete with other businesses for customers and sales. Competition among businesses tends to benefit the consumer since businesses try to offer products that are better and cheaper than those of their competitors.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Compare and contrast different economic systems

62) When businesses compete, products usually become more expensive.

Answer: FALSE

Explanation: Companies often try to beat their competition by offering products at lower prices than their competitors. When companies are the first to offer a certain product, say a high definition television, they can charge premium prices because no other company is selling the new type of product. As competitors enter the market, prices go down because competitors find ways to reduce their expenses, thus allowing them to offer lower prices to consumers.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Compare and contrast different economic systems

63) Baby boomers are an unprofitable demographic target for businesses.

Answer: FALSE

Explanation: The 78 million baby boomers, born between 1946 and 1964, make up the largest and wealthiest population group in the United States, with an estimated spending power of over \$2 trillion a year. This makes baby boomers a large and lucrative target for businesses.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

64) Diversity initiatives in businesses are essential to a company's ability to be competitive.

Answer: TRUE

Explanation: Diversity initiatives in businesses are formal programs intended to promote the inclusion and advancement of minorities in the workplace. As of the 2007 census, one-third of all U.S. residents were minorities; therefore, minorities make up a substantial portion of available workers. Businesses that want to remain competitive must attract and retain the best employees, so they can't afford to alienate talented minority workers. Instead, businesses should create workplace environments where all employees are treated fairly and are able to perform at their best.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

65) Globalization is recognized by all as a force for good in the U.S. economy.

Answer: FALSE

Explanation: Although globalization—the interconnected and interdependent world economy—is a fact of 21st century business, there is much controversy about its benefits. For example, low labor rates in foreign countries have encouraged many U.S. companies to move some of their operations overseas, causing substantial job losses for American workers.

Diff: 1

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

66) Keeping up with technological advances is an inexpensive way for companies to remain competitive.

Answer: FALSE

Explanation: Technology is an essential factor in a company's ability to stay competitive because it helps the company be flexible, organized, and well-connected with customers and employees. But those advantages come with a high price tag. Keeping up with technology is expensive and time-consuming.

Diff: 1

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

67) Local businesses are prone to bankruptcy because they are likely to be undercapitalized.

Answer: TRUE

Explanation: The most common challenge for a small business is managing money.

Undercapitalization, which occurs when a small business owner cannot gain access to adequate funding, can lead to bankruptcy, especially when economic conditions limit sales.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

68) National businesses often serve international markets.

Answer: FALSE

Explanation: National businesses serve customers in various locations across the country where they do business, but do not offer products to international customers.

Diff: 1

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

69) Providing temporary disability insurance for employees is a federal requirement imposed on companies that operate in the United States.

Answer: FALSE

Explanation: Provision of temporary disability insurance for employees is not a federal requirement. It is a requirement imposed by certain states, such as New Jersey and Rhode Island. Only local and regional companies that conduct business in certain states are required to offer temporary disability insurance to their employees.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

70) In what ways is a multinational corporation, like Google, similar to a local business, such as a Chinese restaurant? In what ways are these two businesses different?

Answer: Both Google and a local Chinese restaurant are businesses—entities that offer goods and services to their customers in order to earn a profit. Google and the Chinese restaurant are different in that one is an innovative online business that attracts millions of visitors, while the other is a small town establishment with a smaller local customer base.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Application

Learning Outcome: Explain the benefits and challenges of engaging in international business

71) What do businesses generally do with profits?

Answer: As more profit is generated, a company generally opts to use some portion of its profits to reward its employees, increase its productivity, or expand its business into new areas.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

72) Grace loves working with children and plans to start a school for children with disabilities. She would like to invest at least some of the money she makes after expenses back into the school. What kinds of organization structures should she consider? How would you recommend that Grace structure her school for legal purposes?

Answer: A nonprofit organization would be the most common structure for an enterprise whose primary mission is to provide educational services to the community. If Grace plans to use all excess revenues from the school on activities that support the school's mission, her best option is to form a nonprofit organization. However, there are some schools that seek to provide high-quality educational services while still making a profit for their ownership. Grace might consider whether she can accomplish her mission of serving children with disabilities within a for-profit business. A business structure would allow Grace's school to earn a profit that Grace could use for any purpose she chose. However, given Grace's emphasis on serving children with disabilities, it is likely that the best choice for her would be to form a nonprofit organization.

Diff: 3

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

Learning Outcome: Explain how economic performance is monitored

73) How do the profits of a single business benefit society in general?

Answer: A successful business benefits society by providing the goods and services we need and want. Businesses also provide employment opportunities for members of the community. Because they offer desired goods and services, provide employment, and generate income and spending in the economy, successful businesses contribute to the quality of life by creating higher standards of living for the entire society.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-1 What are profits, and how do for-profit businesses, and not-for-profit organizations compare?

Classification: Conceptual

74) Ron plans to open his own café. He wants to offer a variety of coffees, sandwiches, and salads. He also plans to hire employees who will prepare food and serve customers. What type of product would Ron's customers be offered?

Answer: Ron's customers would be paying for both physical *goods*, that is, the food items Ron would offer, and nonphysical *services*, that is, the preparation and serving of the food items.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Application

75) Identify and describe the five factors of production.

Answer: The text identifies and describes five factors of production that every business must manage, including:

1) Labor. Obviously businesses need people to get things produced. Labor is the human resource that refers to any physical or intellectual work people contribute to a business's production.

2) Natural resources. Most workers who provide the labor to produce a good need something tangible to work with. Natural resources are the raw materials provided by nature that are used to produce goods and services. Soil used in agricultural production, trees used for lumber to build houses, and coal, oil, and natural gas used to create energy are all examples of natural resources.

3) Capital. There are two types of capital: real capital and financial capital. Real capital essentially refers to the physical facilities used to produce goods and services. Financial capital, on the other hand, is money used to facilitate a business enterprise. Financial capital can be acquired via business loans, from investors, or through other forms of fundraising, or even by tapping into personal savings.

4) Entrepreneurial talent. An entrepreneur is someone who assumes the risk of creating, organizing, and operating a business and directs all the business resources. Entrepreneurs are a human resource, just like labor, but what sets entrepreneurs apart from labor is not only their willingness to bear risks but also their ability to manage an enterprise effectively. Successful entrepreneurs are rewarded with profits for bearing risks and for their managerial expertise.

5) Technology. Technology refers to items and services such as smartphones, computer software, and digital broadcasting that make businesses more efficient and productive.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

76) Why is technology such an important factor of production?

Answer: Effective use of technology can make the difference between a successful and an unsuccessful business. Successful companies are able to keep pace with technological progresses and harness new knowledge, information, and strategies. Unsuccessful organizations often fail because they have not kept pace with the latest technology and techniques.

Diff: 2

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Conceptual

Learning Outcome: Identify the different types of technologies used in business and describe their uses

77) Explain the similarities and differences between the different types of capital.

Answer: There are two types of capital: real capital and financial capital. Real capital refers to the physical facilities used to produce goods and services. Financial capital, on the other hand, is money used to facilitate a business enterprise. Financial capital can be acquired via business loans, from investors, or through other forms of fundraising, or even by tapping into personal savings. Though real capital and financial capital are different types of resources, the two types of capital are similar in that they both support a company's ability to conduct its business operations.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-2 What is the difference between a good and a service, and what are the factors of production?

Classification: Application

78) How does competition benefit consumers? Provide a business example of competition's ability to provide value to consumers.

Answer: Having to compete for a finite number of consumers usually weeds out less-efficient companies and less desirable products from the marketplace. Because profit is the ultimate goal, it is the job of a successful business to convince customers that its product is either better or less expensive than that of its competitors. An example is the explosion in high-definition television sales over the last few years. When more manufacturers and retailers jumped into the HDTV market, prices for sets fell drastically. When so many retailers, such as Amazon.com, Costco, and Best Buy, offer HDTVs, prices come down because these stores are able to turn over merchandise quickly and in high volume, which allows them to narrow the margin between the price they pay and the price the customer pays.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Compare and contrast different economic systems

79) How does social networking affect the competitiveness of a business?

Answer: Companies are increasingly using social networking sites such as Facebook and Twitter to connect to their customers. Through these sites, they can promote their products, offer discounts, and build relationships with people interested in their company. Individual consumers can use social-networking sites to quickly spread the word about very good (or very bad) services or products. If a customer is dissatisfied, word can spread like the speed of light—very fast. Thus social networking can affect a business's competitiveness either positively or negatively.

Diff: 2

AACSB: Use of Information Technology, Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

80) Explain how the social environment can affect business.

Answer: A social environment is an interconnected system of different demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics. Social, economic, and political movements and trends cause the social environment in the United States to constantly change. For instance, an influx of immigrants can change the racial demographic, or an economic slump can change the income distribution demographic. These changes affect where we live, what we buy, and how we choose to spend our money. Businesses must consider the shifts and changes in the social environment when making decisions in order to best serve their employees, customers, and community.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

81) What are some of the advantages and disadvantages of globalization for the U.S. economy?

Answer: Globalization presents both benefits and risks to the U.S. economy. An advantage is that lowered production costs allow prices on consumer products to go down, meaning that consumers benefit by purchasing goods at lower prices. A disadvantage is that when a U.S. business decides to relocate any of its operations overseas, workers in the United States lose their jobs to workers overseas. Other disadvantages include increased competition from international companies, fluctuations in the value of the dollar overseas, security and patent protection concerns, and unstable political climates that may make it difficult to conduct business in a foreign country.

Diff: 2

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

82) Assume that you are a business owner who has concerns about the impact of globalization. What is the most practical attitude for you to adopt regarding the trend toward increasing globalization?

Answer: A business owner needs to accept that globalization is here to stay. In order to stay competitive in the global market, companies must work to enhance quality and develop and implement innovative strategies for the long term. The increasingly global nature of business means that a business owner may need to find workers who can communicate with international business partners, have up-to-date technological talents, can demonstrate excellent communication and creative problem-solving skills, and possess leadership skills. A business owner should also look for ways to take advantage of globalization, such as marketing products to international customers.

Diff: 3

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Explain the benefits and challenges of engaging in international business

83) How does the pace of technological change affect businesses, both positively and negatively?

Answer: It's a necessity to stay on the cutting edge of technology in order to remain competitive. The advantages of staying abreast of technology include its ability keep a company flexible, organized, and well connected—either with customers or employees. A disadvantage is that keeping up with the pace of technology is an expensive and time-consuming operation. For instance, the rapid pace of technological innovation means that computers are outdated after three years and obsolete after five. In addition, the cost of applicable software, training, and infrastructure is extremely high and often represents the single largest expense in many companies.

Diff: 2

AACSB: Reflective Thinking

Objective: 1-3 How do competition, the social environment, globalization, and technological growth challenge and provide opportunities to business owners?

Classification: Application

Learning Outcome: Identify the different types of technologies used in business and describe their uses

84) Identify and discuss challenges faced by local, regional, and national businesses.

Answer: The most common challenge for both local and regional businesses is managing money. Poor financial planning, as well as unfavorable economic conditions, can lead to bankruptcy. Undercapitalization occurs when a business owner cannot gain access to adequate funding. The business can then no longer afford to produce goods or provide services, and it goes bankrupt. Even with adequate funding, there is always a chance that the current economy will not support the business. Unlike local businesses, regional businesses that operate in more than one state need to become familiar with the business requirements of each state in which they operate. The need to deal with varying state regulations is something that all regional businesses have in common. However, regional businesses do not have to adapt to as many different states' requirements as national companies do. Also national companies by virtue of their size are likely to have more complex supply chains than those of regional businesses.

Diff: 3

AACSB: Reflective Thinking, Analytic Skills

Objective: 1-4 What are the four types of businesses?

Classification: Application

Learning Outcome: Explain how economic performance is monitored

85) John runs a chain of grocery stores in Colorado. He has just heard a weather report that a storm is headed for his area a few days from now. What should John do to ensure that the goods he needs for his stores are delivered despite the bad weather?

Answer: John's business depends on a supply chain, that is, the products he needs move through a chain of suppliers, manufacturers, and wholesalers before they arrive at his stores. Since John has advance warning of the storm, he could contact his wholesalers to request delivery of needed products at an earlier time or increase his usual order to compensate for the days when the wholesalers may be unable to deliver because of bad weather. In either case, John's requests of his wholesalers may have an impact on other parts of his supply chain, for example, perhaps requiring that his wholesalers communicate with product manufacturers about increasing their delivery of goods to the wholesalers.

Diff: 3

AACSB: Reflective Thinking, Analytic Skills

Objective: 1-4 What are the four types of businesses?

Classification: Application

86) Jocelyn and Jacob are considering opening several branches of their fashion design business in Italy, Germany, and Spain. What cultural issues should they consider before making a final decision?

Answer: The text describes a number of cultural issues, including:

- 1) Countries may have different business hours or workweek schedules. For example, in Spain, workers tend to take lunch from 1:30 to 3:30 PM.
- 2) Values and customs relating to business etiquette may vary. For example, timeliness is valued in Germany but is less important in Italy.
- 3) Violating local taboos can be a concern.
- 4) Multinational companies may have difficulty determining wages for foreign workers and pricing for international markets because the standard of living varies in different countries.
- 5) The language barrier presents a challenge to businesses that are trying to establish themselves in foreign countries. This is especially a problem for U.S. businesses, as only nine percent of U.S. citizens are fluent in a foreign language.

Diff: 3

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

87) Describe some of the most important economic factors a U.S. business should consider before setting up operations overseas.

Answer: A company considering doing business overseas must be familiar with the laws of the countries in which they plan to operate. Laws concerning the import and export of goods vary greatly from one country to another. Things can get particularly complicated if a product needs to be shipped to one country for assembly, then shipped to another for packaging, and then shipped to yet another country for distribution. Often, several countries are involved in the manufacture of one product, in which case the laws and regulations of all of those countries must be adhered to. It might be necessary for a U.S. company to work with the governments of foreign countries if there are strict importing restrictions or a multitude of taxes. Safety regulations, quality control, copyrights, and patent rights are some of the laws that multinational corporations must adhere to.

Diff: 3

AACSB: Reflective Thinking, Dynamics of the Global Economy

Objective: 1-4 What are the four types of businesses?

Classification: Conceptual

Learning Outcome: Explain the benefits and challenges of engaging in international business

88) Many of the concepts and strategies used to run a business can also be used to manage your day-to-day activities. Identify and discuss the major similarities between managing a business and managing your life.

Answer: The text identifies a number of similarities between business and life, including:

1) Funding. Regardless of whether you have a job, you're receiving money from somewhere. It could be from work, a family member, a student loan, or your own savings. Although these funds are not essential to your existence, they are needed to secure the necessities of life. Similarly, all businesses need funds to operate. Ideally, a business would produce revenue right away; however, some businesses may operate on funds received from a bank loan, investors, or their own capital.

2) Expenses. Rent, clothing, food, tuition—these are expenses whether they are paid for with cash, credit, or a loan. Ultimately, you will want to generate enough revenue, or income, to cover your expenses and have some left over. However, the lives of some students operate a bit like a start-up business; you may have to pay for expenses with loans until you have enough experience to generate a profit.

3) Social environment. The social environment probably presents similar opportunities and challenges to you as it does to businesses. How do you deal with these opportunities and challenges? Are you open to learn from people who are different from you? Do you embrace diversity? How do you relate to people from an older generation? What about the green movement? Are you finding ways to make your lifestyle more eco-friendly? It is important to address these issues in order to live a more harmonious life and prepare yourself for the modern work environment.

4) Globalization. Not only is the world getting smaller for businesses, the world is getting smaller for you. Your favorite music group may be a band from Germany. You might like to chat online about movies with a friend from Japan. Just as businesses now have the opportunity to work with other firms from all over the world, you have the ability to make friends or connections on any continent.

5) Technology/E-commerce. Whether or not you consider yourself to be tech-savvy, chances are you still use some sort of technology to run your life. Perhaps you use online banking, or buy things over the Internet. Similar to a business, if you don't keep up with new technology, you may find yourself in trouble.

6) Security. As businesses work to keep personal information secure, so also should customers. You can help keep your information secure by changing your online passwords on a regular basis, making sure your wireless connections are secure, switching to paperless mail, and removing personal information such as phone numbers or addresses from your Facebook account or other social networking sites.

7) Goals. The goals of a business typically revolve around reaching financial success. You too might have certain financial goals you would like to achieve in your life. To reach these goals, you'll need to make informed decisions about how you spend and save your money.

Diff: 3

AACSB: Reflective Thinking

Objective: 1-5 How do life skills translate to the business environment?

Classification: Conceptual