

CHAPTER 1

INTRODUCTION AND OVERVIEW

True-False Questions

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| <p>F. 1. Entrepreneurs provide the financing to individuals who think, reason, and act to convert ideas into commercial opportunities and create opportunities.</p> <p>T. 2. Entrepreneurship is the process of changing ideas into commercial opportunities and creating value.</p> <p>T. 3. An entrepreneur is an individual who thinks, reasons, and acts to convert ideas into commercial opportunities and to create value.</p> <p>F. 4. Mark Twain once said, "I was always able to see an opportunity before it became one."</p> <p>T. 5. Small businesses, those with less than 500 employees, represent over 99 percent of all employers, and account for about one-half of the gross domestic product in the United States.</p> <p>F. 6. Small and growing enterprises are critical to the U.S. economy; small firms provide 20 to 30 percent of net new jobs.</p> <p>T. 7. Small high-technology firms are responsible for twice as many product innovations per employee and obtain more patents per sales dollar than large high-technology firms.</p> <p>F. 8. Phillips and Kirchhoff, using Dun & Bradstreet data, found that 24 percent of new firms were still in existence after two years of operation.</p> <p>T. 9. Nearly half of business failures are due to economic factors such as inadequate sales, insufficient profits, and industry weakness.</p> <p>T. 10. Although the risks associated with starting a new entrepreneurial venture are large, there is always room for one more success.</p> <p>T. 11. Recent studies by Phillips and Kirchhoff, and by Headd, found that about 38%-40% of new firms survived six years of operation.</p> | <p>F. 12. One study of Inc. magazine's 500 high-growth firms suggests that about 88 percent of founders feel their firms' successes are due to extraordinary ideas, while the remaining 12 percent feel their firms' successes are due to exceptional execution of ordinary ideas.</p> <p>F. 13. "Fads" are large societal, demographic, or technological trends or changes that are slow in forming but once in place continue for many years.</p> <p>T. 14. "Fads" are not predictable, have short lives, and do not involve macro changes.</p> <p>T. 15. Three major megatrends discussed in Chapter 1 include: societal trends or changes, demographic trends or changes, and technological trends or changes.</p> <p>F. 16. In 1982, Harry Dent identified several major or megatrends shaping U.S. society and the world.</p> <p>T. 17. The so-called "baby boom" generation applies to people born in the United States during the 1946-1964 time period.</p> <p>T. 18. Perhaps the most important invention shuttling us from an industrial society to an information society is the computer chip.</p> <p>F. 19. Environmental commerce, or e-commerce, involves the use of electronic means to conduct business online.</p> <p>T. 20. The Office of Advocacy of the U.S. Small Business Administration documents that "employer firm births" have approached 600,000 annually in recent years.</p> <p>F. 21. Reasonable estimates place nonemployer (e.g., single person or small family) business started each year at less than 100,000.</p> <p>F. 22. Bill Gates once said: "I was seldom able to see an opportunity, until it ceased to be one."</p> <p>T. 23. A study by Phillips and Kirchhoff using Dun & Bradstreet data found that about three-fourths of new firms were still in existence after two years of operation.</p> |
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T. 24. Recent studies by Phillips and Kirchhoff, and by Headd, found that one-half of new firms or new employers were still in existence after four years of operation.

Note: Following are true-false questions relating to materials presented in the Appendix to Chapter 1.

- F. 25. Nine principles of entrepreneurial finance are identified and explored in this entrepreneurial finance textbook,
- T. 26. The “time value of money” is an important component of the rent one pays for using someone else’s financial capital.
- F. 27. A venture’s financial objective is to survive.
- F. 28. Free cash flow is the net income forecast to be available to the venture’s owners over time.
- T. 38. Click and mortar firms may be a manufacturer that sells its products directly to customers who order via the Internet at the firms’ Web site.
- F. 39. The Internet commerce layer of commercial activity features firms that don’t generate revenues directly from transactions such as Yahoo! and eBay.
- F. 40. The Internet intermediary layer is comprised of firms that conduct Web-based commerce transactions such as Amazon.com.

Multiple-Choice Questions

- T. 29. “Free cash” exists when cash exceeds that which is needed to operate, pay creditors, and invest in assets.
- T. 30. Owner-manager (agency) conflicts are differences between manager’s self-interest and that of the owners who hired him.
- F. 31. The owner-debtholder conflict is the divergence of the owners’ and lenders’ self-interest as the firm gets close to going “public.”
- F. 32. The financial objective of increasing value is inconsistent with developing positive character and reputation.
- T. 33. Entrepreneurial finance is the application and adaptation of financial tools and techniques to the planning, funding, operations, and valuation of an entrepreneurial venture.
- F. 34. Financial distress occurs when cash flow is insufficient to meet current debt obligations.
- T. 35. The second stage in a successful venture’s life cycle is the startup stage.
- T. 36. Early-stage ventures include firms in their development, startup, or survival live cycle stages.
- F. 37. Mezzanine financing is temporary financing needed to keep the venture afloat until the next offering.
1. Successful entrepreneurs exhibit which of the following traits?
- recognize and seize commercial opportunities
 - fear failure
 - tend to be doggedly optimistic
 - both *a* and *b*
 - both *a* and *c*
2. “Fads” are:
- not predictable
 - have short lives
 - do not involve macro changes
 - all of the above
3. Harry Dent documented major generation waves in the United States during the twentieth century in:
- 1972
 - 1982
 - 1993
 - 2003
4. “E-commerce” refers to:
- environmental commerce
 - electronic commerce
 - economic commerce
 - exploratory commerce
5. Maximizing the value of the venture to its owners is the common financial goal of which of the following?
- the entrepreneur

- b. the debtholders
- c. the venture equity investors
- d. both *a* and *b*
- e. both *a* and *c*

a. 6. Which of the following is considered to be an “agency” conflict?

- a. owner-manager conflict
- b. stockholder-manager conflict
- c. stockholder-debtholder conflict
- d. manager-debtholder conflict

d. 7. Which of the following is not a life cycle stage of a successful venture?

- a. development stage
- b. startup stage
- c. survival stage
- d. cash cow stage
- e. maturity stage

c. 8. Which of the following does not describe activity during the venture’s life cycle startup stage?

- a. venture’s organization
- b. venture’s development
- c. operating cash flows are generated
- d. initial revenue model is put in place

a. 9. At which stage of the venture’s life cycle stage is best characterized by the period when revenues start to grow and when cash flows from operations begin covering cash outflows?

- a. survival stage
- b. startup stage
- c. rapid growth stage
- d. maturity stage

b. 10. Which is not a major source of start-up financing for a venture’s startup stage?

- a. entrepreneur’s assets
- b. business operations
- c. family and friends
- d. business angels
- e. venture capitalists

d. 11. Obtaining bank loan, issuing bonds, and issuing stock is characteristic of which type of financing during the venture’s life cycle?

- a. seed financing
- b. second round financing
- c. mezzanine financing
- d. seasoned financing
- e. liquidity stage financing

c. 12. During a venture’s rapid growth stage, funds for plant expansion, marketing expenditures, working capital, and product or service improvements is obtained through?

- a. seed financing
- b. second round financing
- c. mezzanine financing
- d. seasoned financing
- e. liquidity stage financing

b. 13. Founder and venture investor shares are sold to the public after the initial offering to the public is called?

- a. secondary market transaction
- b. secondary stock offering
- c. venture offering
- d. bridge loan

d. 14. Which of the following advise and assist corporations on the type, timing, and costs of issuing new debt and equity securities and facilitate the sale of firms?

- a. brokerage firms
- b. venture law firms
- c. specialist firms
- d. investment banking firms

c. 15. Which stage in the venture life cycle is characterized by creating and building value, obtaining additional financing, and examining opportunities?

- a. survival stage
- b. startup stage
- c. rapid growth stage
- d. maturity stage

c. 16. About 60 percent of all newly created businesses in the U.S. are dissolved or cease operations within how many years after being started?

- a. two years
- b. four years
- c. six years
- d. eight years

a. 17. Which one of the following possible conflicts of interest is usually minimized through the use of equity incentives?

- a. owner-manager conflicts
- b. owner-employee conflicts
- c. manager-employee conflicts

d. manager-debtholder conflicts

d. being optimistic about the venture's success

- c. 18. The last three stages of a successful venture's life cycle occur in the following order:
- startup, development, rapid growth
 - startup, survival, rapid growth
 - survival, rapid growth, maturity
 - development, startup, survival
- e. 19. The stage that precedes the middle stage in a successful venture's life cycle is called the:
- rapid growth stage
 - maturity stage
 - development stage
 - survival stage
 - startup stage
- e. 20. During the maturity stage of a venture's life cycle, the primary source of funds is in the form of:
- mezzanine financing
 - seed financing
 - startup financing
 - first round financing
 - seasoned financing
- a. 21. The type of financing that occurs during the development stage of a venture's life cycle is typically referred to as:
- seed financing
 - startup financing
 - first round financing
 - second round financing
 - mezzanine financing
- d. 22. Mezzanine financing is associated with which one of the following life cycle stages:
- development stage
 - startup stage
 - survival stage
 - rapid growth stage
 - maturity stage
- c. 23. While one must be careful to avoid too many generalizations about entrepreneurial traits or characteristics, which one of the following characteristics would not normally be associated with successful entrepreneurs?
- being able to see and seize a commercial opportunity
 - planning for the venture's future
 - only being able to see an opportunity after it ceases to be one
- b. 24. About one-half of all newly created businesses in the U.S. are dissolved or cease operations within how many years after being started?
- two years
 - four years
 - six years
 - eight years
- f. 25. Entrepreneurial finance is the application and adaptation of financial tools and techniques to an entrepreneurial venture. Entrepreneurial finance involves:
- planning
 - funding
 - operations
 - valuation
 - a and d above
 - all of the above
- d. 26. Which one of the following possible conflicts of interest increases in divergence at venture gets close to bankruptcy?
- owner-manager conflict
 - owner-employee conflict
 - manager-employee conflict
 - manager-debtholder conflict
- e. 27. The first three stages of a successful venture's life cycle occur in the following order:
- development, rapid growth, survival
 - startup, development, rapid growth
 - startup, survival, rapid growth
 - survival, rapid growth, maturity
 - development, startup, survival
- b. 28. The last stage in a successful venture's life cycle is called the:
- rapid growth stage
 - maturity stage
 - development stage
 - survival stage
 - startup stage
- a. 29. During the development stage of a venture's life cycle, the primary source of funds is in the form of:
- seed financing
 - startup financing
 - first round financing
 - second round financing

e. mezzanine financing

e. all of the above

- c. 30. The type of financing that occurs during the survival stage of a venture's life cycle is typically referred to as the:
- seed financing
 - startup financing
 - first round financing
 - second round financing
 - mezzanine financing
- e. 31. Which one of the following would not be considered a type of venture financing?
- seed financing
 - startup financing
 - mezzanine financing
 - liquidity-stage financing
 - seasoned financing
- d. 32. While entrepreneurial opportunities come from an almost unlimited number of sources, this textbook focuses on:
- societal changes
 - demographic changes
 - technological changes
 - all of the above
 - none of the above
- b. 33. One study of successful entrepreneurs indicated that a majority felt that the most important factor in the long-term success of their ventures was:
- being greedy
 - having high ethical standards
 - working hard
 - taking frequent vacations
- d. 34. Indicate the number of principles of entrepreneurial finance that are emphasized in this textbook:
- one
 - three
 - five
 - seven
 - nine
- a. 35. Financial markets where customized contracts or securities are negotiated, created, and held with restrictions on how they can be transferred are called:
- private financial markets
 - public financial markets
 - domestic financial markets
 - international financial markets
- a. 36. The *time value of money* concept is associated with which one of the following principles of entrepreneurial finance:
- real, human, and financial capital must be rented from owners
 - risk and expected reward go hand in hand
 - while accounting is the language of business, cash is the currency
 - it is dangerous to assume that people act against their own self-interests
- c. 37. You have the opportunity of making a \$5,000 investment. The outcomes one year from now will be either \$4,500 or \$6,000 with an equal chance of either outcome occurring. What is the expected value outcome?
- \$4,500
 - \$6,000
 - \$5,250
 - \$5,750
 - \$5,000
- a. 38. You have the opportunity of making a \$5,000 investment. The outcomes one year from now will be either \$5,000 or \$6,000 with an equal chance of either outcome occurring. What is the expected value rate of return?
- 10%
 - 15%
 - 20%
 - 25%
 - 30%
- c. 39. Assume that you can sell a new product at \$5.00 per unit. Your variable costs are \$3.00 per unit and you fixed costs are \$20,000. What is your breakeven point in sales units?
- 5,000
 - 7,500
 - 10,000
 - 12,500
 - 15,000
- d. 40. Assume that you can sell a new product at \$5.00 per unit. Your variable costs are \$3.00 per unit and you fixed costs are \$20,000. What will be your profit before taxes if you sell 12,000 units next year?
- \$0
 - \$1,000

- c. \$2,000
- d. \$4,000
- e. \$8,000

Note: Following are multiple-choice questions relating to the Appendix in Chapter 1.

- b. 41. Which one of the following can best be described as having physical facilities in place for manufacturing, marketing, selling and distributing their products and services?
 - a. click and mortar firms
 - b. brick and mortar firms
 - c. dot-com firms
 - d. entrepreneurial firms
- c. 42. Which of the following is not a layer of commercial activity involving the Internet?
 - a. Internet infrastructure layer
 - b. Internet intermediary layer
 - c. Internet design layer
 - d. Internet applications infrastructure layer
 - e. Internet commerce layer
- a. 43. The term to describe the percentage of total Web users in the United States who visited a Web site in a given time period is:
 - a. reach
 - b. hits
 - c. eyeballs
 - d. churn rates
 - e. unique visitors