

## **Questions for Chapter 1**

### **True/False**

1. In general, businesses with 100-500 employees are considered “medium-sized businesses.” (pg. 3)  
(False)
2. A majority of small business owners feel their companies have increased their overall standard of living. (pg. 4)  
(False)
3. The first two NASDAQ stocks to be included in the Dow Jones Industrial Average were Microsoft and Apple. (pg. 4)  
(False)
4. Venture Capital is a source of growth funding exclusively for technology companies with the potential for rapid, scalable growth. (pg. 10)  
(False)
5. Historically, annual returns for venture capitalists have averaged 143% over the past several decades. (pg. 10)  
(False)
6. The boom and bust cycle of the dot-com era is similar to other periods of commercial innovation. (no longer in the chapter)  
(True)
7. Yahoo! Inc.’s IPO set the all-time record, in terms of capital raised, for Silicon Valley companies. (pg. 10)  
(False)
8. Entrepreneurship did not grow very much after the Great Depression, until it began increasing in the 1970’s. (pg. 12)  
(True)
9. Baby boomers are not as concerned about job security as were their parents. (pg. 14)  
(True)
10. The Fortune 500 employed 15 percent of the workforce in 2005. (pg. 14)  
(False)
11. There was a burst of venture capital backed startups in the last half of the 1960s. (pg. 14)  
(True)
12. The amount of venture capital under management has grown from \$3.7 billion in 1980 to \$156.5 billion in 2015. (pg. 14)  
(True)

13. Today, approximately 700 universities have offices for technology transfer. (pg. 15)  
(False)

14. Virtual companies are so called because they outsource much of their work. (pg. 17)  
(True)

15. In 2012, North American incubators assisted more than 350,000 startup companies. (pg. 17)  
(False)

16. The professionalization of the entrepreneurial process, which has developed over the last 20 years, has almost eliminated the need for young entrepreneurs to write business plans themselves. (pg. 18)  
(False)

17. Five percent of American adults report they “invested” in someone else’s venture in the last three years. (pg. 18)  
(True)

18. Churning is a main component of a healthy economy. (pg. 18)  
(True)

19. The Global Entrepreneurship Monitor (GEM) is an organization created to gather information about the most successful start-ups for potential investors. (pg. 20)  
(False)

20. *Baby business managers* are owners-managers who are actively trying to start a new business but who have not yet done so. (pg. 20)  
(False)

21. The Total Entrepreneurial Activity (TEA) index tracks the percent of the adult population that is trying to start or has started an infant business because all other options for work are either absent or unsatisfactory. (pg. 20)  
(False)

22. Norway is among the leading countries, in terms of entrepreneurial activity. (pg. 21)  
(False)

26. Approximately 66% of all businesses start in the owner’s home, but fail to grow primarily because the entrepreneur hires too many full-time workers. (pg. 4)  
(False)

27. The former dean of the Nomura School of Advanced Management in Japan, Jiro Tokuyama, once said that the venture capital firms in Japan comprise one of the chief advantages for Japanese, technology start-ups. (pg. 10)  
(False)

28. General Motors became the first company to earn over one billion dollars in a single year on December 31, 1985. (pg. 2)

(False)

31. In 1928, the DJIA comprised 50 companies. (pg. 5)

(False)

### **Multiple Choice**

1. What was the world's largest corporation in 2012? (pg. 2)

- A) Southwest Airlines
- B) General Motors
- C) Walmart
- D) Google
- E) Apple

(Answer – C)

2. What percentage of new business ventures typically survive their first 5 years of operation? (pg. 4)

- A) 100
- B) 81
- C) 65
- D) 40
- E) 25

(Answer – D)

3. What percentage of Americans dream of starting a business? (pg.4)

- A) 68%
- B) 39%
- C) 48%
- D) 58%
- E) 28%

(Answer – B)

4. According to the survey cited in this chapter, which of the following was not one of the most important innovations since 1980? (pg. 5)

- A) The Internet
- B) Cell phones
- C) Personal computers
- D) Digital imagery
- E) E-mail

(Answer – D)

5. Which software application was the predecessor to the Lotus 1-2-3 spreadsheet? (pg. 7)

- A) Microsoft Excel
- B) MasterFile
- C) Financial Works
- D) FileMaker

E) VisiCalc  
(Answer – E)

6. Which of the trends below converged to spark the Internet revolution of the 1990's? (pg. 9)

- A) Personal Computers, Cell Phones, and Laser Printing
- B) Digital Technology, Information Technology, and Entrepreneurship
- C) Personal Computers, Modems, and Floppy Disks
- D) Entrepreneurship, Venture Capital, and Computer Software
- E) Venture Capital, Biotechnology, and Telecommunications

(Answer – B)

7. By 2015, what percentage of the world's population had become Internet users? (pg. 10)

- A) 2
- B) 16
- C) 46
- D) 60
- E) 57

(Answer – C)

8. Which of the following industries was the prime example of venture capital fueling the pace of commercial innovation? (pg. 10)

- A) Semi-Conductors
- B) Mini-Computers
- C) Biotechnology
- D) Personal Computers
- E) All of the Above

(Answer – E)

9. What percent of GDP did venture capital backed companies generated in 2010? (pg. 10)

- A) 7
- B) 21
- C) 28
- D) 31
- E) 41

(Answer – B)

10. What was the increase in Benchmark Capital's investment of \$5 million in eBay? (pg. 10)

- A) 30-fold in two years
- B) 300-fold in two years
- C) 700-fold in two years
- D) 1500-fold in two years
- E) 4000-fold in two years

(Answer – D)

11. The stock market collapse that led to the Great Depression occurred in what year? (pg. 12)

- A) 1928
- B) 1929
- C) 1930
- D) 1931

E) 1932  
(Answer – B)

12. Who reasoned that capitalism would be inevitably destroyed by elites? (pg. 12)

- A) Whyte
- B) Servan-Schreiber
- C) Schumpeter
- D) Lenin
- E) Marx

(Answer – C)

13. According to the GEM model, how many sets of activities create the basis for national economic growth? (pg. 13)

- A) 2
- B) 3
- C) 4
- D) 5
- E) 6

(Answer – A)

14. Which term is used to describe business churning? (pg. 13)

- A) Artificial evolution
- B) Evolving transition
- C) Making the butter
- D) Business expansion
- E) Creative destruction

(Answer – E)

15. “Baby boomers” is the term used for Americans born in: (pg. 14)

- A) Early 1920’s
- B) 1920’s
- C) Early 1930’s
- D) Late 1930’s – 1940’s
- E) Mid 1940’s – early 1960’s

(Answer – E)

16. What percent of the workforce did Fortune 500 companies employ in 1960’s? (pg. 14)

- A) 10
- B) 15
- C) 20
- D) 25
- E) 30

(Answer – C)

17. What percent of the executives downsized in the 1980’s and 1990’s started their own businesses? (pg. 14)

- A) 10
- B) 15
- C) 20

- D) 25
  - E) 30
- (Answer – C)

18. How much new VC money was committed in 1975? (pg. 14)

- A) \$10 million
- B) \$45 million
- C) \$145 million
- D) \$430 million
- E) \$930 million

(Answer – A)

19. What does SBIR stand for? (pg. 15)

- A) Savings, Brokerage, and Investment Reserve
- B) Small Business Innovation Research
- C) Space Based Infra Red
- D) Speaker Boundary Interference Response
- E) Small Business Interest Rate

(Answer – B)

20. How much does the Bayh-Dole Act contribute annually to the US economy? (pg. 15)

- A) \$300 million
- B) \$950 million
- C) \$12 billion
- D) \$32 billion
- E) \$40 billion

(Answer – E)

21. What was the primary objective of the Bayh-Dole Act? (pg. 15)

- A) Commercial development of intellectual property
- B) Investment of pension funds in venture capital companies
- C) Gender equality among entrepreneurs.
- D) Support for young entrepreneurs
- E) All of the above

(Answer – A)

22. How many business incubators were in the US in 2006? (pg. 17)

- A) 240
- B) 764
- C) 850
- D) 1115
- E) 2076

(Answer – D)

23. What percent of American, four-year colleges have courses in entrepreneurship? (pg. 17)

- A) 13
- B) 43
- C) 55
- D) 60

E) 78  
(Answer – D)

24. How much do informal investors contribute to startup businesses annually? (pg. 17)

- A) \$12 billion
- B) \$50 billion
- C) \$67 billion
- D) \$86 billion
- E) \$100 billion

(Answer – E)

25. At the turn of the 20<sup>th</sup> century, about 50% of US workers worked in either the agricultural or the domestic service spheres. Approximately 100 years later that percentage had decreased to which of the following figures? (pg. 5)

- A) 4%
- B) 10%
- C) 16%
- D) 22%
- E) 35%

(Answer – A)

26. Which of the following entrepreneurs was one of the pioneers of the biotechnology industry? (pg. 7)

- A) Robert Noyce
- B) Arthur Blank
- C) Tim Nerners-Lee
- D) George Gendron
- E) Robert Swanson

(Answer – E)

27. Jim Clark, an IT entrepreneur, became the first Internet billionaire because of his investment in what company? (pg. 9)

- A) Yahoo! Inc.
- B) Netscape Communications
- C) Amazon.com Inc.
- D) Google Inc.
- E) Microsoft Corp.

(Answer – B)

28. In general, the most important source of capital for a new entrepreneurial venture is which of the following? (pg. 18)

- A) Informal investors
- B) Venture Capital
- C) Banks
- D) Profits from the venture
- E) Incubators

(Answer – A)

29. What is the most successful US airline? (pg. 19)

- A) United Airlines
- B) Delta
- C) Continental
- D) Southwest Airlines
- E) Pan-Am

(Answer – D)

30. The highest average TEA rates are found in? (pg. 21)

- A) Middle East & North Africa
- B) European Union
- C) United States
- D) Asia Pacific/South Asia
- E) Africa and Latin America/Caribbean

(Answer – E)

### Open ended

**1. Why are small businesses an important consideration for state and federal politicians? (pgs. 2 – 3)**

- In the U.S. there are 28 million or so businesses, of which approximately 99.9 percent are small businesses.
- More than fifteen hundred new businesses are born every hour of every working day in the United States.
- Small businesses create most of the jobs in the US.

**2. Explain, in your own words, Schumpeter's view of entrepreneurship's role in an economy and society. (pgs. 1 – 2)**

- Schumpeter argued that the innovation and technological change of a nation come from entrepreneurs.
- He believed that entrepreneurs are the ones who facilitate the functionality of an economy.
- He claimed that by destroying old businesses and creating new ones, entrepreneurs keep the economy healthy.

**3. Describe the World Economic Forum's (WEF) 3 phases of economic development. (pgs. 20 – 21)**

- The *factor-driven* phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on (unskilled) labor and natural resources. The focus of development efforts tends toward building a sufficient foundation of basic requirements.
- The *efficiency-driven* phase: an economy has become more competitive with further development accompanied by industrialization and an increased reliance on economies of scale, with capital-intensive large organizations more dominant. Generally accompanied by improved (and improving) basic requirements, and attention is then directed toward developing the efficiency enhancers.
- In the *innovation-driven* phase, businesses are more knowledge-intensive, and the service sector expands.

**4. What was the most critical step in Federal Express' rapid growth? (pgs. 6 – 7)**

- In the mid-1970s, Federal Express had taken a leading role in lobbying for air cargo deregulation that finally passed in 1977.
- These changes allowed Federal Express to use larger aircraft and spurred the company's rapid growth. Today FedEx has the world's largest all-cargo air fleet, including McDonnell-Douglas MD-11s and Airbus A-300s and A-310s.

**5. Give two examples of how companies strengthened their businesses through changes in regulations. (pgs. 6 – 7)**

- Federal Express had taken a leading role in lobbying for air cargo deregulation that finally passed in 1977. These changes allowed Federal Express to use larger aircraft and spurred the company's rapid growth
- Herb Kelleher, the charismatic co-founder of Southwest Airlines, is often credited with triggering airline deregulation by persevering with his legal battle to get Southwest airborne, in the face of fierce legal opposition from Braniff, Trans-Texas, and Continental Airlines.

**6. Why is the Internet one of the most revolutionary developments in the history of commercial innovation? (pg. 8 – 10)**

- The internet provided businesses with millions of flexible space in which to conduct commerce.
- Small businesses gained a platform that allowed them to compete with multi-billion corporations.
- The internet spurred the proliferation of information. Any entrepreneur now has access to virtually any information he or she needs.

**7. Why was the Netscape's IPO so popular and successful? (pgs. 9 – 10)**

- Netscape Navigator was an instant hit with users, gaining 75 percent of the browser market within four months of its introduction.
- Marc Andreessen, the creator of Netscape, was well known among investors by the time he decided to take his company public.
- Venture capitalists saw huge potential in Netscape and believed that the company could become a legitimate rival to Microsoft.

**8. How did the advent of the PC churn up the entire computer industry? (pg. 19)**

- It wiped out the typewriter industry.
- Changed the way office work is organized – secretaries had to learn computer skills

**9. Which factors led to American entrepreneurial revolution? (pg. 12)**

- In the 1960s a generation of Americans who had no first-hand memory of the Great Depression and did not believe an economy should be built on corporations only came of age.
- In the 1970s, Washington, after bailing out Penn Central, Lockheed, and Chrysler, started to pay more attention to small businesses
- Congress took steps in 1978 to stimulate the venture capital industry, which, in turn, led to more investments in start-ups
- Bayh-Dole Act, implemented in 1980 fostered the growth of technology-based small businesses by allowing them to own the patents that arose from federally sponsored research

**10. What was the effect of the Bayh-Dole Act? (pg. 15)**

- 10 years ago, *The Economist* estimated that Bayh-Dole had created 2,000 new companies and 260,000 new jobs and had contributed \$40 billion annually to the U.S. economy. More progress has been made since then.
- More than 1,200 universities have offices for technology transfer.

**11. Who, in your opinion, would benefit from the creative destruction process and why? (pgs. 13 – 14)**

- Economy – stays healthy and primed for growth.
- The customer – new ventures create better products.
- The companies themselves – the threat of creative destruction leads companies to constantly improve their operating and production processes and leads to faster learning curves.

**12. Describe the three main measures of entrepreneurial activity. (pg. 20)**

- TEA (total entrepreneurial activity) is the percentage of the adult population that is either nascent entrepreneurs or baby businesses owner-managers or both. It measures the overall entrepreneurial activity of a nation.
- TEA (opportunity) is the percentage of the adult population that is trying to start or has started a baby business to exploit a perceived opportunity. They are classified as improvement-driven opportunity motivated if they additionally seek to improve their income or independence through entrepreneurship.
- TEA (necessity) is the percentage of the adult population that is trying to start or has started a baby business because all other options for work are either absent or unsatisfactory.

**14. Explain what the Global Entrepreneurship Monitor (GEM) is. (PG. 20)**

- It was conceived in 1997 to study the economic impact and the determinants of national-level entrepreneurial activity.
- It is the largest coordinated research effort ever undertaken to study population-level entrepreneurial activity.
- GEM has become the world's most influential and authoritative source of empirical data and expertise on the entrepreneurial potential of nations.