

Ch01: Chapter 1: The Power of Entrepreneurship

True/False

1. In general, businesses with 100-500 employees are considered “medium businesses.”

Ans: False

2. A majority of small business owners feel their companies have increased their overall standard of living.

Ans: False

3. The first two NASDAQ stocks to be included in the Dow Jones Industrial Average were Microsoft and Apple.

Ans: False

4. The Dow Jones Industrial Average is the average price of all the companies traded on the New York Stock Exchange.

Ans: False

5. Venture Capital is only a source of growth funding for technology companies with the potential for rapid scale.

Ans: False

6. Historical returns for venture capitalists have averaged 143% over the past several decades.

Ans: False

7. The boom and bust cycle of the dot-com era is similar to other periods of commercial innovation.

Ans: True

8. The Yahoo IPO set the all-time record for Silicon Valley companies.

Ans: False

9. Entrepreneurship did not grow very much after the Great Depression until 1970's.

Ans: True

10. Baby boomers are not as concerned about job security as were their parents.

Ans: True

11. The Fortune 500 employed 15 percent of the workforce in 2005.

Ans: False

12. There had been a burst of venture capital backed startups in the last half of the 1960s.

Ans: True

13. Today, about 700 universities have offices for technology transfer.

Ans: False

14. The Web has served as the means to the biggest change in entrepreneurship in the last 10 years.

Ans: True

15. Virtual companies are companies so called because they outsource much of their work.

Ans: True

16. In 2001, North American incubators assisted more than 350,000 startup companies.

Ans: False

17. Professionalization of the entrepreneurial process that has developed over the last 20 years has almost eliminated the need for young entrepreneurs to write business plans themselves.

Ans: False

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

Ans: True

19. Churning is the main driver of a vital economy.

Ans: True

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

Ans: False

21. The Total Entrepreneurial Activity (TEA) index focused on opportunity entrepreneurs is the percent of the adult population that are trying to start or have started a baby business to exploit a perceived opportunity because all other options for work are either absent or unsatisfactory.

Ans: False

22. Japan is among the leaders in terms of entrepreneurial activity.

Ans: False

23. 30-year-old people fall into the most entrepreneurially active age group.

Ans: True

24. In general, the number of women entrepreneurs comprises 2/3 of the number of men entrepreneurs.

Ans: True

25. A High-Expectation Nascent Entrepreneur is an individual who expects to employ at least 50 employees within four years' time through his or her new firm.

Ans: False

Multiple Choice

1. What percentage of new business ventures typically survive through 5 years of operation?

- a) 100
- b) 81
- c) 65
- d) 40
- e) 25

Ans: d

2. In 1997, what percentage of small businesses were in a service industry?

- a) 2
- b) 4
- c) 8
- d) 12
- e) 20

Ans: e

3. According to the survey cited for this chapter, which of the following was not one of the most important innovations since 1980?

- a) The Internet
- b) Cell phones
- c) Personal computers
- d) Digital imagery
- e) E-mail

Ans: d

4. Which product was the predecessor to the Lotus 1-2-3 spreadsheet?

- a) Microsoft Excel
- b) MasterFile
- c) Financial Works
- d) FileMaker
- e) VisiCalc

Ans: e

5. Which of the three trends below converged to spark the Internet revolution of the 1990's?

- a) Personal Computers/Cell Phones/Laser Printing
- b) Digital Technology/Information Technology/Entrepreneurship
- c) Personal Computers/Modems/Floppy Disks
- d) Entrepreneurship/Venture Capital/Computer Software
- e) Venture Capital/Biotechnology/Telecommunications

Ans: b

6. By 2005, what percentage of the world's population were Internet users?

- a) 2
- b) 15
- c) 25
- d) 60
- e) 57

Ans: b

7. Which of the following industries were prime examples of venture capital fueling the pace of commercial innovation?

- a) Semi-Conductors
- b) Mini-Computers

- c) Biotechnology
- d) Personal Computers
- e) All of the Above

Ans: e

8. Total venture capital investments in the year 2000 totaled which of the following:

- a) \$621 million
- b) \$786 million
- c) \$101 billion
- d) \$237 billion
- e) \$1.2 trillion

Ans: c

9. Total funds raised by venture capital backed IPOs in 2000 equaled:

- a) \$22 billion
- b) \$74 billion
- c) \$314 billion
- d) \$1.2 trillion
- e) \$4.3 trillion

Ans: a

10. What percent of GDP did venture capital backed companies generated in 2003?

- a) 7
- b) 16
- c) 25
- d) 31
- e) 41

Ans: b

11. What was the increase in Benchmark Capital's investment of \$5 million in eBay?

- 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

Ans: d

12. When did the stock market collapse leading to the Great Depression happen?

- a) 1928
- b) 1929
- c) 1930
- d) 1931
- e) 1932

Ans: b

13. Who reasoned that capitalism would be naturally destroyed by elites?

- a) Whyte
- b) Servan-Schreiber
- c) Schumpeter
- d) Lenin
- e) Karl Marx

Ans: c

14. According to the GEM model, how many sets of activities create the base for national economic growth?

- a) 2
- b) 3
- c) 4
- d) 5
- e) 6

Ans: a

15. What term is used to describe business churning?

- a) Artificial evolution
- b) Evolving transition
- c) Making the butter
- d) Business expansion
- e) Creative destruction

Ans: e

16. "Baby boomers" is the term used for Americans born in:

- a) Early 1920's
- b) 1920's
- c) Early 1930's
- d) Late 1930's – 1940's
- e) Mid 1940's – early 1960's

Ans: e

17. What percent of the workforce did Fortune 500 companies employ in 1980's?

- a) 10
- b) 15
- c) 20
- d) 25
- e) 30

Ans: c

18. What percent of executives downsized in 1980's and 1990's started their businesses?

- a) 10
- b) 15
- c) 20
- d) 25
- e) 30

Ans: c

19. How much new VC money was committed in 1975?

- a) \$10 million
- b) \$45 million
- c) \$145 million
- d) \$430 million
- e) \$930 million

Ans: a

20. What does SBIR stand for?

- a) Speaker Box Interface
- b) Small Business Innovation Research
- c) Space Based Infra Red
- d) Speaker Boundary Interference Response
- e) Small Business Interest Rate

Ans: b

21. How much does Bayh-Dole Act contribute annually in the US economy?

- a) \$300 million
- b) \$950 million
- c) \$12 billion
- d) \$32 billion
- e) \$40 billion

Ans: e

22. What was the primary objective of Bayh-Dole Act?

- a) Commercial development of intellectual property
- b) Investment of pension funds in venture capital companies
- c) Emancipation of women
- d) Supporting young entrepreneurs
- e) All of the above

Ans: a

23. How many business incubators were there in the US in 2003?

- a) 240
- b) 764
- c) 850
- d) 1113
- e) 2076

Ans: c

24. What percent of American four-year colleges have entrepreneurship courses?

- a) 13
- b) 43
- c) 55
- d) 60
- e) 78

Ans: d

25. How much do informal investors invest in startup in baby businesses annually?

- a) \$12 billion
- b) \$50 billion
- c) \$67 billion
- d) \$86 billion
- e) \$100 billion

Ans: e

Essay

1. Why are small businesses an important issue for state and federal politicians?

Ans:

- In the U.S. there are 24 million or so businesses, of which approximately 99.5 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.

Ans:

- Schumpeter argued that the innovation and technological change of a nation comes from entrepreneurs.
- He believed that entrepreneurs are the ones who make things work in the economy of the country.
- He claimed that by destroying old businesses and creating new ones, entrepreneurs keep the economy healthy.

3. What was the most critical step in Federal Express' rapid growth?

Ans:

- In the mid-1970s, Federal Express had taken a leading role in lobbying for air cargo deregulation that finally came 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-Douglass MD-11s and Airbus A-300s and A-310s.

4. Explain two or three examples of how companies use influence with the government to strengthen their businesses.

Ans:

- Federal Express had taken a leading role in lobbying for air cargo deregulation that finally came 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.

5. Why is the Internet one of the most revolutionary developments in the history of commercial innovation?

Ans:

- Internet-related businesses provided millions of working places.
- Small businesses gained access to resources that allowed them to compete with multi-billion corporations.
- Numerous data resources are free now and anyone with an entrepreneurial idea can find virtually any information he/she needs.

6. Why was the Netscape's IPO so popular and successful?

Ans:

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

7. The chapter cites that from 1990 to 2001 start-ups created 258,700 jobs, while established companies lost 120,500. How would you explain this phenomenon?

Ans:

- New companies are more competitive than old ones, taking their market share away.
- Employees leave established companies for start-ups.
- Inability to go hand-in-hand with the newest technological advancements drives companies bankrupt, and new ventures with their renovated products pick up customers and markets.

8. Explain in your own words the forces driving the cycle in Figure 1.2.

Ans:

- National economic growth is a function of two sets of interrelated activities: those associated with established firms and those related directly to the entrepreneurial process.
- When we look at the nature of the relationship between entrepreneurship and economic growth, we should distinguish between entrepreneurial opportunities and entrepreneurial capacity.
- Creation and destruction of businesses occur within a particular context, which the GEM Model calls Entrepreneurial Framework Conditions and which include factors such as availability of finance, government policies and programs designed to support startups, R&D transfer, physical and human infrastructure, education in general, education and training for entrepreneurship, social and cultural norms, and internal market openness.

9. What does the phrase 'knowledge based companies' mean?

Ans:

- 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.
- The 1970s was the decade when Washington bailed out Penn Central, Lockheed, and Chrysler and 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 are the advantages of the creative destruction process for an economy?

Ans:

- Economy – stays healthy
- The customer – new ventures create better products
- The companies themselves – creative destruction leads to tougher competition, which forces companies to constantly improve their operating and production processes and leads to faster learning curves