

Financial Management: Concepts and Applications (Foerster)
Chapter 2 Sizing Up a Business: A Non-Financial Perspective

2.1 Sizing Up the Overall Economy

1) In order to understand a firm's current and anticipated financial position and needs, we must first:

- A) understand overall economic conditions.
- B) understand the industry in which it operates.
- C) understand the strengths and weaknesses of the firm itself.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

2) A comprehensive nonfinancial size-up is:

- A) a critical component in analyzing the firm's strengths and weaknesses.
- B) critical in understanding the firm's historical position.
- C) critical in anticipating future financing needs.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

3) A comprehensive nonfinancial size-up should be done:

- A) monthly.
- B) quarterly.
- C) annually.
- D) as needed.
- E) All of the above.

Answer: C

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

4) A comprehensive nonfinancial size-up is a useful tool for:

- A) financial managers.
- B) lenders.
- C) investors.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

5) Information for the sizing-up process for publicly traded firms can be obtained from:

- A) the firm's annual report.
- B) the firm's 10-K report filed with the Securities & Exchange Commission.
- C) industry reports.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

6) The two major components for sizing up a business are:

- A) risk analysis and cash flow analysis.
- B) cash flow analysis and risk management.
- C) analyzing external environment and factors within the enterprise.
- D) growth projections and risk analysis.

Answer: C

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

7) The two key external factors that impact the firm's cash flows are:

- A) the overall economy and future financing needs.
- B) the overall economy and the nature and structure of the industry.
- C) the level of interest rates and working capital requirements.
- D) working capital requirements and growth projections.

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

8) The financial management framework focuses on which three areas of decision-making?

- A) Operating, investing, and profitability.
- B) Profitability, financing, and investing.
- C) Investing, financing, and operating.
- D) Operating, financing, and profitability.

Answer: C

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

9) The financial management framework:

- A) examines the factors in the external environment and its impact on the firm's operating decisions.
- B) elaborates on the three main cash-related activities of the firm.
- C) examines how value is created and measured.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

10) Which of the following is NOT considered to be a factor that affects the external environment in which a firm operates?

- A) Interest rates
- B) Credit conditions
- C) Dividend policy
- D) Expansion and recession of the economy

Answer: C

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

11) All of the following are important factors in the economy EXCEPT:

- A) technology.
- B) interest rates.
- C) financial markets.
- D) credit conditions.

Answer: A

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

12) The business size-up involves:

- A) an external assessment of the industry.
- B) an external assessment of the economy.
- C) an internal assessment of the firm's strengths and weaknesses.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

13) The overall goal in sizing up each of the external and internal factors is to:

- A) determine the competitive position of the firm relative to its competitors.
- B) increase the value of the enterprise.
- C) assess the company's strengths and weaknesses.
- D) make better investment decisions.

Answer: B

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

14) The economic size-up involves:

- A) the relationship between overall economic activity and the industry's performance assessment of the economy.
- B) identifying the current business cycle stage.
- C) anticipation of the interest rate change.
- D) All of the above.

Answer: D

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

15) One of the most important reasons for understanding the overall economy is:

- A) changing economic activity will impact the current business cycle stage.
- B) changing economic activity will directly impact revenues.
- C) changing economic activity will increase profits.
- D) All of the above.

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

16) Gross domestic product (GDP) is a measure of:

- A) the total amount of goods and services sold over a particular period of time.
- B) the total amount of goods and services produced over a particular period of time.
- C) the projected amount of goods and services to be produced over a particular period of time.
- D) None of the above.

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

17) Which of the following statements are NOT true?

- A) Peaks in the business cycle tend to occur when the capacity-to-output gap is the largest.
- B) Peaks in the business cycle tend to occur when the capacity-to-output gap is the smallest.
- C) Troughs occur when the capacity-to-output gap is the largest.
- D) None of the above.

Answer: A

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

18) All of the following statements are true EXCEPT:

- A) when changes in real GDP are positive, the economy is said to be expanding.
- B) peaks in the business cycle tend to occur when the capacity-to-output is smallest.
- C) troughs occur when the capacity-to-output gap is the largest.
- D) two consecutive quarterly declines in GDP are generally said to be a recession.

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

19) Which of the following is NOT a component of GDP?

- A) Consumer sector
- B) Business investment sector
- C) Government sector
- D) Healthcare sector

Answer: D

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

20) When a country imports more than it exports, it will:

- A) be known as a net importing country and this portion of the GDP will have positive value.
- B) be known as a net importing country and this portion of its GDP will have a negative value.
- C) be known as a net exporting country and this portion of its GDP will have a positive value.
- D) be known as a net exporting country and this portion of its GDP will have a negative value.

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

21) Different sectors or industries grow or shrink at various stages in the business cycle. Which statement is TRUE?

- A) Utilities tend to do relatively better in the early stages of an expansion.
- B) Basic materials tend to do well in the early stages of a recession.
- C) Healthcare tends to do well at the peak of an expansion.
- D) The financial sector tends to do relatively better in the early stages of an expansion.

Answer: C

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

22) The Fed's primary goals are:

- A) maintaining stable prices.
- B) maintaining low or steady inflation.
- C) maximizing employment.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

23) The shape of the yield curve is important for which of the following reasons?

- A) It provides an indication of the anticipated change in interest rates.
- B) It provides an indication of the borrowing costs for corporation.
- C) It provides clues about the economy's current position in the business cycle.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

24) Capital market conditions can affect the timing of a new equity issue because:

- A) Issuing new equity may be harder when stock prices are rising.
- B) Issuing new equity may be easier when stock prices are rising.
- C) Issuing new equity may be harder when stock prices are falling.
- D) B and C

Answer: D

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

25) Which of the following is NOT a question related to the analysis of the overall economy?

A) What is the current business cycle stage?

B) How profitable is the industry cycle?

C) How important are interest rates in the financial position of the firm within the industry?

D) How easy is it to obtain debt and equity financing?

Answer: B

Diff: 2

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

26) The overall goal in sizing up each external and internal factor is to increase the value of the firm.

Answer: TRUE

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

27) Generally in the short run, a country's actual output of goods and services increases the same rate as the country's capacity.

Answer: FALSE

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

28) Capital market conditions affect the timing of a new equity issue.

Answer: TRUE

Diff: 1

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

29) Describe the four stages of the business cycle. What are the characteristics of each stage and how would a financial manager adjust their strategic and tactical planning for changes in the business cycle?

Answer: Peaks in the business cycle tend to occur when the capacity-to-output gap is smallest, and troughs tend to occur when the gap is largest. When changes in real GDP are positive, the economy is said to be expanding. Conversely, two consecutive quarterly declines in real GDP are generally said to indicate a RECESSION.

Diff: 3

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

30) What are the goals of the Federal Reserve and how does the Federal Reserve attempt to control inflation"? Why is low and steady inflation important?

Answer: The Fed's primary goals are to maintain stable prices or low and steady inflation, maximize employment, and moderate long-term interest rates.

There is often a direct link between inflation and the nation's money supply, which is controlled by the Fed. Some economists claim that too much money "chasing" too few goods tends to cause inflation. In other words, if the Fed makes more money available to banks and banks more readily lend this money to consumers, then consumers will want to make more purchases. If, however, the supply of goods and services is limited, then the price of these goods and services will rise as demand increases.

Consumers are hesitant to purchase if they think their wages cannot keep up with rising prices, and they hesitate to purchase if they think prices are about to go down,. Thus, relative price stability is the "sweet spot."

Diff: 3

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

31) What are the three shapes of the yield curve that tend to be associated with different stages of the business cycle? How would you categorize the current business cycle? Explain your answer.

Answer: Periods of expansion are associated with upward-sloping yield curves, because inflation and interest rates tend to increase throughout an expansion. At troughs in the business cycle, yield curves tend to be upward sloping as well, but they start from a lower level. In contrast, yield curves tend to be inverted or downward sloping prior to a recession, with short-term rates higher than long-term rates. This inversion often occurs as central banks attempt to tighten monetary policy by increasing short-term rates (i.e., the discount rate) when the economy appears to be overheating and there is danger that inflation will increase. If the central bank is successful, then rates are expected to decline in the longer term. The current yield curve depends on current economic conditions.

Diff: 3

Topic: 2.1 Sizing up the Overall Economy

AACSB: Reflective Thinking

2.2 Sizing Up the Industry

1) The ultimate goal of sizing up the industry is to:

A) identify the industry life cycle.

B) identify the key success factors that are necessary for the firm to successfully compete in the industry.

C) monitor the nature and intensity of the competition.

D) All of the above.

Answer: C

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

- 2) The sizing up of the industry involves:
- A) an external assessment of the industry.
 - B) identifying the industry life cycle stage.
 - C) the nature and intensity of the competition.
 - D) All of the above.

Answer: D

Diff: 1

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

- 3) An industry analysis is critical to better understand a firm's financial position because:
- A) it provides insight into how the firm's financial needs might change as industry conditions change.
 - B) it helps identify the key risks and opportunities facing the firm.
 - C) it provides better insight into how maximize the firm's current financial position relative to its competitors.
 - D) All of the above.

Answer: D

Diff: 1

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

- 4) Which of the following is NOT considered to be a factor that affects the industry in which a firm operates?
- A) Technology
 - B) Credit conditions
 - C) Interest rates
 - D) Regulations

Answer: B

Diff: 1

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

- 5) Initial public offerings are more frequently issued during which stage of the industry life cycle?
- A) Stage 1 - start-up stage
 - B) Stage 2 - rapid growth and little competition stage
 - C) Stage 3 - intense competition stage
 - D) Stage 4 - stabilization and maturity stage

Answer: B

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

6) Stage 1 of the industry life cycle is characterized by all of the following EXCEPT:

- A) there is little demand for the company's products and services.
- B) the firm's revenue is low but there are high prospects for growth.
- C) competition is fierce and profit margins begin to narrow.
- D) firms need a significant amount of cash in order to grow.

Answer: C

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

7) Stage 2 of the industry life cycle is characterized by all of the following EXCEPT:

- A) there is little demand for the company's products and services.
- B) the firm's revenue tends to grow rapidly.
- C) positive profits begin to materialize.
- D) private firms begin to "go public."

Answer: A

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

8) Stage 3 of the industry life cycle is characterized by all of the following EXCEPT:

- A) competition intensifies as more and more firms enter the industry.
- B) there is little demand for the company's products and services.
- C) revenues continue to grow, but at a slower pace.
- D) firms become more efficient at maintaining costs.

Answer: B

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

9) Stage 2 of the industry life cycle is characterized by all of the following EXCEPT:

- A) this is a phase of stabilization and maturity.
- B) this stage does not last very long.
- C) growth in revenue tends to occur at the same rate as the growth in the overall economy.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

10) Which of the following is NOT considered to be one of Michael Porter's Five Forces?

- A) Threat of new entrants
- B) Bargaining power of suppliers
- C) Threat of substitute products or services
- D) Diminished rivalry among current competitors

Answer: D

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

11) Which of the following is TRUE about the threat of new entrants?

- A) New entrants often increase capacity within the industry.
- B) The easier to enter an industry, the higher the profit margins and growth potential.
- C) If competitors are strong, existing competitors will not react strongly to any new entrants.
- D) If there are huge barriers to entry, competitors will be attracted to the industry.

Answer: A

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

12) Which of the following is TRUE about the threat of substitutes?

- A) When threatened by substitutes, existing competitors will increase their prices.
- B) Innovation makes an existing product or service more attractive to its customers.
- C) If there are numerous substitutes, the firm's profit margins and revenues will decline.
- D) If the competitors are strong, existing competitors will not react strongly to the threat of substitutes.

Answer: C

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

13) Which of the following is TRUE about the threat of substitutes?

- A) When threatened by substitutes, existing competitors will increase their prices.
- B) Innovation makes an existing product or service more attractive to its customers.
- C) If there are numerous substitutes, the firm's profit margins and revenues will decline.
- D) If the competitors are strong, existing competitors will not react strongly to the threat of substitutes.

Answer: C

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

14) The bargaining power of suppliers and customers will impact the profitability of the industry because:

- A) powerful suppliers can exert pressure to raise prices.
- B) powerful customers can exert pressure by forcing down prices.
- C) powerful customers can exert pressure by demanding higher quality.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

15) Intense rivalry among existing firms can result in:

- A) the introduction of new products or services.
- B) lower profit margins as competitors jockey for position.
- C) decreased capacity.
- D) Both A and B.

Answer: D

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

16) A PEST analysis involves an analysis of which of these factors?

- A) Technological, societal, economic factors, and potential threats
- B) Societal, technological, political, and economic factors
- C) Strengths, threats, economic and political factors
- D) Strengths, threats, potential opportunities, and external environment factors

Answer: B

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

17) All of the political factors can give managers further insights into the opportunities and risks facing a particular industry EXCEPT:

- A) favorable tax changes or incentives in the industry.
- B) pending and new government relations.
- C) nature and intensity of competition.
- D) demographic changes in the population.

Answer: C

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

18) All of these social factors can give managers further insights into the opportunities and risks facing a particular industry EXCEPT:

- A) aging of the population.
- B) new technology developments.
- C) greater health consciousness.
- D) obesity concerns.

Answer: B

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

19) An analysis of the industry's technological improvements can help managers better identify which of these trends are occurring within a particular industry?

- A) Major efficiency gains.
- B) Reductions in overhead
- C) Lower production costs
- D) All of the above

Answer: A

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

20) Which of the following is NOT a question related to an industry analysis?

- A) How close is the firm to full capacity?
- B) In what industry life cycle is the firm?
- C) How profitable is the industry?
- D) What are the overall prospects for revenue growth and increased profitability in the industry?

Answer: A

Diff: 2

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

21) The structure of competitive forces establishes the profitability of an industry.

Answer: TRUE

Diff: 1

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

22) Value is created when the industry is profitable and the firm is in a disadvantaged competitive position within the industry.

Answer: FALSE

Diff: 1

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

23) How is the typical profitability of a stage 2 firm different from a stage 1 and a stage 3 firm?

Answer: Stage 1 represents the initial or start-up stage of firms within a particular industry. At this point, the firms tend to have very low demand and hence low revenue, but high prospects for revenue growth. Because start-up costs are large, profits are typically negative. In this stage, firms often require a significant amount of cash in order to grow. During stage 2, revenue tends to grow rapidly and positive profits materialize while competition is relatively muted. This is frequently the point at which private firms "go public," meaning they issue equity shares through an initial public offering process. Also, this is often the period when firms within the industry consolidate, as well as when firms with poor prospects tend to die out. In stage 3, competition intensifies, revenues continue to grow but at a slower or more mature rate, and firms tend to become more efficient as costs are controlled. However, increased competition may put downward pressure on profit margins.

Diff: 3

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

24) What are Michael Porter's Five Forces that govern the competition within an industry? How do these forces impact overall growth opportunities within an industry?

Answer: Porter Five Forces are: 1. The threat of new entrants, 2. The threat of substitute products or services, 3. The bargaining power of suppliers, 4. The bargaining power of customers and, 5. The intensity of rivalry among the current competitors.

The extent of these forces determines the overall profitability of the industry. Thus, Porter argues that firms must understand how these forces work in a particular industry, how they affect individual firms in the industry, and how each firm can try to take advantage of these forces.

Diff: 3

Topic: 2.2 Sizing up the Industry

AACSB: Reflective Thinking

2.3 Sizing Up Operations Management and Supply Risk

1) Sizing up operation management involves:

A) identifying the firm's strengths and weaknesses related to operations.

B) an external assessment of the industry.

C) an internal assessment of the firm's strengths and weaknesses.

D) All of the above.

Answer: A

Diff: 1

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

- 2) The firm's supply risk can best be analyzed by examining:
- A) the components of the firm's operations management.
 - B) the components of the firm's operations management compared with the key industry success factors.
 - C) the key industry success factors and their impact on profitability.
 - D) the behavior of the firm's major competitors.

Answer: A

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

- 3) When sizing up the operations of the firm, it is important to examine:
- A) the quality of the firm's products or services.
 - B) how effective the processes are that the firm employs to operate the business.
 - C) the capacity of the firm's plant or facilities.
 - D) All of the above.

Answer: D

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

- 4) When sizing up the operations of the firm, it is important to examine:
- A) the level of technological innovation and investments of the firm.
 - B) the level of skill of the firm's work force.
 - C) the capacity of the firm's plant or facilities.
 - D) All of the above.

Answer: D

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

- 5) All operating systems involved what is known as the Six P's of Operations, which include:
- A) product quality, profitability, and people.
 - B) process, plant, and profitability.
 - C) product quality, process, and people.
 - D) product potential, plant, and partners.

Answer: C

Diff: 1

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

6) A firm is considering whether to out source some aspects of the manufacturing of its products. Which one of the Six P's of Operations is the firm addressing?

- A) Product quality
- B) Process
- C) Plant
- D) People

Answer: B

Diff: 1

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

7) When sizing up the operations of the firm, it is important to examine all of these EXCEPT:

- A) the current labor environment.
- B) the skill level of the firm's work force.
- C) the capacity of the firm's plant or facilities.
- D) None of the above.

Answer: D

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

8) Which one of the following statements is TRUE?

- A) Plant or facilities management involves ensuring sufficient capacity or maximum output is available.
- B) People or labor management involves hiring and maintenance of a sufficiently skilled work force.
- C) Parts or inventory management involves tradeoffs between maintaining huge amounts of inventory to ensure any demand for the product can be readily met and the costs associated with maintaining huge amounts of inventory.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

9) Managing the firm's supply network is important because:

- A) the firm is reliant on the efforts of its supply network partners in order to produce its products and/or services.
- B) managers must manage the supply network for efficient, responsive procurement and distribution to meet their customers' needs.
- C) plant or facilities management involves ensuring sufficient capacity or maximum output is available.
- D) Both A and B

Answer: D

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

10) Which of the following is NOT a question related to operations management and supply risk analysis?

- A) How close is the firm to full capacity?
- B) Are the products appropriate relative to the competitors' products?
- C) How much inventory is required to meet demand?
- D) How critical are technological innovations and investments?

Answer: B

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

11) The firms' supply risk can best be analyzed by examining the components of the firm's operations management compared with the key industry success factors.

Answer: TRUE

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

12) Managers must manage the supply network for efficient, responsive procurement and distribution to meet their customers' needs.

Answer: TRUE

Diff: 2

Topic: 2.3 Sizing up Operations Management

AACSB: Reflective Thinking

2.4 Sizing Up Marketing Management and Demand Risk

1) Sizing up marketing management involves:

- A) identifying the firm's strengths and weaknesses related to marketing.
- B) identifying the target market.
- C) identifying the appropriate marketing mix
- D) All of the above.

Answer: A

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

2) Demand risk refers to:

- A) the probability that actual supply for the products or services will exceed anticipated supply.
- B) the probability that actual supply for the products or services will fall short of anticipated supply.
- C) the probability that actual demand for the products or services will exceed anticipated demand.
- D) the probability that actual demand for the products or services will fall short of anticipated demand.

Answer: D

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

3) The firm's demand risk can best be analyzed by examining:

- A) the components of the firm's marketing plan.
- B) the components of the firm's marketing management compared with the key industry success factors.
- C) the key industry success factors and their impact on profitability.
- D) the behavior of the firm's major competitors.

Answer: B

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

4) Value proposition refers to:

- A) a statement that describes the benefits of the firm's products and services.
- B) a statement that describes the unique features of the firm's products and services.
- C) a statement that describes why a specific target customer should choose the firm's products or use its services.
- D) None of the above.

Answer: C

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

5) Marketing analysis involves all of the following EXCEPT:

- A) distinguishing between who buys the product and who consumes it.
- B) determining the channel through which the product or service is purchased.
- C) assessing the firm's plant capacities.
- D) determining the unique features of the target market.

Answer: C

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

6) The strategic and tactical choices that a firm makes lead to the firm's marketing mix which is referred to as the Four P's of Marketing. They are:

- A) distinguishing between who buys the product and who consumes it.
- B) determining the channel through which the product or service is purchased.
- C) assessing the firm's plant capacities.
- D) determining the unique features of the target market.

Answer: C

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

7) A firm is evaluating the best means to have a positive impact on potential buyers; which one of the four P's is the firm addressing?

- A) Product
- B) Price
- C) Place
- D) Promotion

Answer: D

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

8) When sizing up the marketing management of the firm, it is important to examine:

- A) the level of technological innovation and investment of the firm.
- B) the firm's particular target market.
- C) the product's critical physical and intangible attributes.
- D) Both B and C

Answer: D

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

9) Which of the following is NOT a question related to marketing management and demand risk analysis?

- A) Is the distribution channel appropriate?
- B) Is the product appropriate relative to the competitors?
- C) How much marketing management depth does the firm have?
- D) Who are the firm's target customers?

Answer: C

Diff: 2

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

10) The size and current growth stage of the firm must also be considered as a part of the marketing analysis.

Answer: TRUE

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

11) Demand risk refers to the probability that actual supply for the products or services will exceed anticipated supply.

Answer: FALSE

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

12) Value proposition refers to a statement that describes the unique features of the firm's products and services.

Answer: FALSE

Diff: 1

Topic: 2.4 Sizing Up Marketing Management

AACSB: Reflective Thinking

2.5 Sizing Up Human Resource Management and Strategy

1) Sizing up human resource management involves:

A) identifying the firm's strengths and weaknesses related to human resource management.

B) an external assessment of the industry.

C) an internal assessment of the firm's strengths and weaknesses.

D) None of the above.

Answer: D

Diff: 1

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

2) The focus of the analysis of human resource management and strategy is on:

A) the skills and knowledge level of the firm's employees.

B) the capabilities and character of the management team.

C) the capabilities and potential of the firm's employees.

D) All of the above.

Answer: B

Diff: 1

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

3) There are a number of key management attributes that are required to improve a firm's chances of business success which include:

- A) managers with expertise and technical knowledge in the functional areas.
- B) middle managers with leadership potential.
- C) managers with experience in the industry in which the firm operates.
- D) All of the above.

Answer: A

Diff: 1

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

4) Some of the factors to consider in the analysis of management are:

- A) the experience, skills, and chronological age of the management team.
- B) the skills, technical knowledge, and reputations of the management team.
- C) the skills, actual track record, and experience of the management team.
- D) the capabilities and potential of the management team.

Answer: C

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

5) Other factors to consider in the management analysis include:

- A) the size and current growth stage of the firm.
- B) the leadership skills of the management team.
- C) the commitment and loyalty of the management team.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

6) Which of the following is NOT an important character trait of individual managers?

- A) Ability to understand the nuts and bolts of the business.
- B) Ability to understand the strategic context in which the business operates.
- C) The age and tenure of the individual manager.
- D) The ability to motivate people to achieve extraordinary results.

Answer: C

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

- 7) Management seeks to identify individuals who possess capability in these four areas:
- A) business intelligence, marketing intelligence, strategic intelligence, and people intelligence.
 - B) business intelligence, organizational intelligence, strategic intelligence, and people intelligence.
 - C) business intelligence, marketing intelligence, organizational intelligence, and people intelligence.
 - D) business intelligence, emotional intelligence, strategic intelligence, and people intelligence.

Answer: B

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

- 8) If the firm's management is assessing the opportunities and risks that a business faces, they are engaged in which of the four areas of human resource management?

- A) Business intelligence
- B) Strategic intelligence
- C) Organizational intelligence
- D) People intelligence

Answer: B

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

- 9) If the firm's management is assessing the economics of their business model, they are engaged in which of the four areas of human resources management?

- A) Business intelligence?
- B) Strategic intelligence
- C) Organizational intelligence
- D) People intelligence

Answer: A

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

- 10) Which of the following is NOT a question related to human resources management and strategy analysis?

- A) What ownership position do the managers have?
- B) Is the current management team a good fit for the current life cycle stage?
- C) How much management depth does the firm have?
- D) Has the firm successfully targeted its customers?

Answer: A

Diff: 2

Topic: 2.5 Sizing up Human Resource Management

AACSB: Reflective Thinking

2.6 Sizing Up Home Depot: An Example

1) Sizing up a business is relevant for managers because:

- A) it helps managers better understand customer needs.
- B) understanding overall economic performance helps explain a firm's past financial performance.
- C) it helps highlight key supply and demand risks and internal capabilities.
- D) All of the above.

Answer: D

Diff: 2

Topic: 2.6 Sizing-up Home Depot: An Example

AACSB: Reflective Thinking

2) Which of the following would NOT be considered part of an EXTERNAL analysis for a business?

- A) Estimated Growth of GDP
- B) Federal Reserve monetary policy
- C) Expected growth of the firm's industry segment
- D) An analysis of the firm's operations management

Answer: C

Diff: 2

Topic: 2.6 Sizing-up Home Depot: An Example

AACSB: Reflective Thinking

3) A study of Porter's Five Forces for a retail consumer products firm such as Home Depot might include each of the following EXCEPT:

- A) an analysis of existing competition with the industry.
- B) an analysis of the threat of substitutes.
- C) an analysis of customer bargaining power.
- D) Each of the above would be included in a study of Porter's Five Forces.

Answer: D

Diff: 2

Topic: 2.6 Sizing-up Home Depot: An Example

AACSB: Reflective Thinking

4) Consumer spending is the main driver of economic activity in the United States.

Answer: TRUE

Diff: 2

Topic: 2.6 Sizing-up Home Depot: An Example

AACSB: Reflective Thinking