

Chapter 1

Entrepreneurship: A Field, an Activity - and a Way of Life

TRUE/FALSE

1. The process of entrepreneurship involves a chain of events and activities that takes place over a period of time.

ANS: T PTS: 1 DIF: E OBJ: 1

2. Recognizing opportunities for creating or developing something new can only occur within existing organizations.

ANS: F PTS: 1 DIF: M OBJ: 1

3. Entrepreneurship is a field of study that seeks to understand how opportunities to create new products or services arise and are discovered by specific persons, who then use various means to exploit or develop them.

ANS: T PTS: 1 DIF: E OBJ: 1 | 3

4. The entrepreneurial process begins when one or more persons recognize an opportunity---the potential to create something new that has emerged from a complex pattern of changing conditions.

ANS: T PTS: 1 DIF: E OBJ: 3

5. A business plan is a detailed description of how a company plans to develop its new venture.

ANS: T PTS: 1 DIF: E OBJ: 3

6. Entrepreneurs cause an increase in unemployment, taking away jobs from the working class.

ANS: F PTS: 1 DIF: E OBJ: 2

7. Experimentation plays a large part in an entrepreneur's success and is used all of the time in the study of entrepreneurship.

ANS: F PTS: 1 DIF: M OBJ: 6

8. The term "Theory" refers to efforts to go beyond merely describing various phenomena to the point at which we can explain them.

ANS: T PTS: 1 DIF: M OBJ: 7

9. One reason that more people are choosing to be entrepreneurs, rather than entering the workforce through pre-existing companies, is because many people in the younger generation prefer a job allowing them independence and freedom.

ANS: T PTS: 1 DIF: E OBJ: 2

10. In the process of developing a theory on entrepreneurship, the theory is eventually either proven or rejected, and the results are accepted as being absolute.

ANS: F PTS: 1 DIF: M OBJ: 7

11. A person is conducting research concerning a certain theory about entrepreneurship. The findings of the research contradict the theory. This proves the theory to be false.

ANS: F PTS: 1 DIF: M OBJ: 7

12. Entrepreneurship refers to developing a new product or service that is revolutionary, or earth-shaking, rather than developing a less noteworthy product or service.

ANS: F PTS: 1 DIF: E OBJ: 1

13. The definition of entrepreneurship includes the creation of something new. It does not include the requirement that the new thing makes it to market.

ANS: F PTS: 1 DIF: E OBJ: 1

14. The example in the textbook of Lorraine Santoli creating a new dispenser for tissues to be used in her car is not an example of entrepreneurship because it is not something “hot” or remarkable.

ANS: F PTS: 1 DIF: E OBJ: 1

15. Entrepreneurship refers to the process of bringing something that is not now being produced to the marketplace.

ANS: T PTS: 1 DIF: E OBJ: 1

16. In the United States, small businesses, those with less than 500 employees, make up only about 1% of all employers.

ANS: F PTS: 1 DIF: E OBJ: 2

17. Companies like Expedia.com probably could not have been started ten or more years ago because the technological, economic, and social forces were not right to present the opportunity to start such a company.

ANS: T PTS: 1 DIF: E OBJ: 3

MULTIPLE CHOICE

1. Of the following, which one is probably NOT an example of an entrepreneur.
 - a. After years of working as a mechanic, a middle-aged man comes up with the idea of processing old tires and transforming them into borders for flower gardens.
 - b. An elderly woman who enjoys entertaining in her home and providing home-made appetizers decides to offer her services to parties and become a caterer.
 - c. A scientist involved in research on the biochemistry of life makes breakthrough discoveries that advance the frontiers of his field, but has no interest in identifying the practical uses of his findings.
 - d. A computer scientist develops a new software program that is better than any others currently on the market. The scientist seeks capital to start a company to develop and sell this product.
 - e. After retiring from the army, an officer develops the idea of purchasing retired amphibious

vehicles from the government and using them to start a company that specializes in offering tours of remote wilderness areas.

ANS: C PTS: 1 DIF: M OBJ: 1 | 4
NOT: Thinking

2. A person who creates something new while working inside an existing company is known as a/an
- internal entrepreneur.
 - nonproprietary thinker.
 - technology officer.
 - intrapreneur..
 - traditional entrepreneur.

ANS: D PTS: 1 DIF: M OBJ: 1
NOT: Recall

3. In order to understand entrepreneurship as a process, it is essential to consider which of the following factors?
- The economic, technological, and social conditions from which opportunities rise.
 - The people who recognize technological, economic, and social conditions from which opportunities rise
 - The business techniques and legal structures used to develop opportunities.
 - The economic and social effects produced by the realization of opportunities.
 - All of the above.

ANS: A PTS: 1 DIF: M OBJ: 3
NOT: Recall

4. The field of entrepreneurship is closely linked to older and more established disciplines. Which of the following is NOT considered by the text to be one of those disciplines?
- Accounting.
 - Economics.
 - Behavioral Science.
 - Sociology.
 - Psychology.

ANS: A PTS: 1 DIF: E OBJ: 3
NOT: Recall

5. Full understanding of entrepreneurship can be gained only through careful consideration of
- the “top-up” perspective.
 - macro and micro approaches.
 - the “bottom-down” perspective.
 - the macro approach only.
 - the micro approach only.

ANS: B PTS: 1 DIF: E OBJ: 2
NOT: Recall

6. Which of the following is NOT one of the five major phases of the entrepreneurship process?
- Recognition of an opportunity.
 - Deciding to proceed and assembling the essential resources.
 - Launching a new venture.
 - Creating an in-depth, strategic marketing plan.
 - Building success.

ANS: D PTS: 1 DIF: M OBJ: 3
NOT: Recall

7. While considering entrepreneurs, the kind of ideas people generate are the result of which of the following factors?
- the times in which they live.
 - the current state of technological knowledge.
 - the current state of the economy.
 - their friends, associates, and the media.
 - all of the above influence the ideas people generate.

ANS: E PTS: 1 DIF: M OBJ: 4
NOT: Recall

8. Individual, group, and societal factors influence all phases of the entrepreneurial process. Given this information, which is more important, the micro approach or the macro approach?
- Neither approach is important to the entrepreneurial process.
 - Both the micro and macro approach are valuable and necessary to the process.
 - The macro approach is the more important approach.
 - The micro approach is the more important approach.
 - The micro approach is the more important, because there is no macro approach.

ANS: B PTS: 1 DIF: E OBJ: 4
NOT: Recall

9. Which of the following is NOT one of the principal means of acquiring knowledge?
- observation.
 - reflection.
 - transactional.
 - experimentation.
 - all of the above are the principal means of acquiring knowledge.

ANS: C PTS: 1 DIF: M OBJ: 5
NOT: Recall

10. Observing certain aspects of the world systematically, keeping careful records of what is noticed, and then using the information as a basis for reaching conclusions about the topics we wish to study and understand is known as
- systematic reasoning.
 - systematic observation.
 - experimentation.
 - theorizing.
 - transactional exploring.

ANS: B PTS: 1 DIF: M OBJ: 6
NOT: Recall

11. In order to deal with the issue of causality, researchers in many fields turn to another technique known as _____. This involves systematically changing one variable in order to see if such changes affect one or more other variables.
- experimentation.
 - systematic approach.
 - cause and effect implementation.
 - control monitoring.
 - adverse systems analysis.

ANS: A PTS: 1 DIF: M OBJ: 5 | 6
NOT: Recall

12. Researchers employ a wide range of statistical techniques to help determine causality on the basis of other methods, such as systematic observation. One way to do this is to determine if one variable or change occurs before another. Something that occurs later in time cannot reasonably be the cause of something that occurred earlier. This concept, which can be used to establish the direction of causality in systematic observation, is called...
- “Granger Causality.”
 - “Causality Consultant.”
 - “Granger-Hall Approach.”
 - “Peterson’s test of Causality.”
 - None of the above.

ANS: A PTS: 1 DIF: E OBJ: 6
NOT: Recall

13. Which of the following statements about the role of theory in entrepreneurship is NOT true?
- The purpose of a theory is to help with the efforts to go beyond merely describing various phenomena to the point at which we can explain them.
 - Theories help to understand why and how events happen.
 - Theories are frameworks for explaining various events or processes.
 - Theories help to figure out what it is about certain people that allows them to be so good at recognizing opportunities that other people miss.
 - All of the above are true about theories.

ANS: E PTS: 1 DIF: M OBJ: 7
NOT: Application

14. A “top-down” perspective that seeks to understand the entrepreneurial process by focusing largely on environmental factors that are mostly beyond the direct control of an individual is called the
- macro perspective.
 - micro perspective.
 - opportunity perspective.
 - external perspective.
 - internal perspective.

ANS: A PTS: 1 DIF: E OBJ: 6
NOT: Recall

15. A “bottom-up” perspective that seeks to understand the entrepreneurial process by focusing on the behavior and thought of individuals or groups of individuals is known as the
- macro perspective.
 - micro perspective.
 - opportunity perspective.
 - external perspective.
 - internal perspective.

ANS: B PTS: 1 DIF: E OBJ: 6
NOT: Recall

16. Aspects of the world that can take different values are known as
- variables.
 - facts.

- c. predictions.
- d. external concerns.
- e. theories.

ANS: A PTS: 1 DIF: E OBJ: 4 | 6
NOT: Recall

17. Which of the following refers to the effort to go beyond merely describing various phenomena and, instead, to explain them
- a. extensive research.
 - b. theory.
 - c. abstract approach.
 - d. micro investigation.
 - e. case method.

ANS: B PTS: 1 DIF: E OBJ: 7
NOT: Recall

18. As best described in the text, entrepreneurship is said to be
- a. a process.
 - b. a commitment.
 - c. a chain of events that takes place over time.
 - d. both A and B.
 - e. all of the above.

ANS: E PTS: 1 DIF: E OBJ: 1
NOT: Thinking

19. About how many individuals are self-employed in the United States currently?
- a. more than 20 million.
 - b. less than 5 million.
 - c. more than 10 million.
 - d. approximately 45,000.
 - e. 1,000.

ANS: C PTS: 1 DIF: E OBJ: 2
NOT: Recall

20. An entrepreneur wants to explore whether a product with a blue package sells better than the very same product with a red package. The color of the package is the only thing that is changed and the product is put into test marketing to see if the blue package or red package sells more. This is known as
- a. insanity.
 - b. micro approach.
 - c. experimentation.
 - d. reflection.
 - e. intrapreneurship.

ANS: C PTS: 1 DIF: D OBJ: 6
NOT: Thinking

21. At the 3 M Company, scientists are told to spend 15% of their working time on things that are not part of their “normally assigned tasks.” That is, they are to experiment with materials in attempts to “come up with” new products; to be very creative. This is known as
- a. theory building.

- b. entrepreneurship.
- c. engine of economic growth.
- d. social change.
- e. intrapreneurship.

ANS: E PTS: 1 DIF: M OBJ: 3
NOT: Application

22. Which of the following is usually not considered to be one of the phases of entrepreneurship?
- a. Idea for new product or service.
 - b. Order a new boat and car in the first year of business.
 - c. Assemble required resources.
 - d. Build a successful business.
 - e. Harvest the rewards.

ANS: B PTS: 1 DIF: E OBJ: 3
NOT: Recall

23. The macro level of analysis related to entrepreneurship includes
- a. the entrepreneur's skills.
 - b. the motives of the person for starting the business.
 - c. economic conditions.
 - d. the traits of the person starting the business.
 - e. the entrepreneur's knowledge about finance.

ANS: C PTS: 1 DIF: M OBJ: 4
NOT: Recall

24. A hypothesis is
- a. a theory that has been supported by research evidence.
 - b. a prediction that has not yet been tested.
 - c. a prediction that has been tested and found to be true.
 - d. the same as an economic fact.
 - e. a theory that has not been found to not predict what actually happens.

ANS: B PTS: 1 DIF: E OBJ: 6
NOT: Recall

25. Which of the following is part of the micro level of analysis when studying entrepreneurship?
- a. Technological conditions in the immediate market area in which the entrepreneur wants to operate.
 - b. Overall market conditions.
 - c. The nature of the stock market; what is happening on the New York Stock Exchange, etc.
 - d. The entrepreneur's skills in selling a new product.
 - e. The laws that apply to the product developed by the entrepreneur.

ANS: D PTS: 1 DIF: E OBJ: 3
NOT: Recall

26. Intrapreneur refers to
- a. someone who starts a business and runs it from his or her house.
 - b. a person who invents a product to be used indoors.
 - c. a person who develops an innovative product or idea while working inside of an existing larger business.
 - d. a person who is employed by a larger business.

e. a person who has an idea for a new product but does not take steps to bring it to market.

ANS: C PTS: 1 DIF: M OBJ: 1
NOT: Recall

27. In attempting to understand the entrepreneurial process, the perspective that focuses on understanding the behavior and thoughts of people and groups in the business is known as
- economic forces.
 - technological forces.
 - environmental factors approach.
 - macro approach.
 - micro approach.

ANS: E PTS: 1 DIF: E OBJ: 3
NOT: Recall

28. An incubator is
- the first product that is produced by a new company.
 - a place where an entrepreneur might get assistance and some protection while establishing a new business.
 - the same as a license to produce a product.
 - a law that restricts the growth of new businesses.
 - entrepreneurial cognition.

ANS: B PTS: 1 DIF: E OBJ: 6
NOT: Recall

29. There is some evidence that entrepreneurial people think and reason differently than other people. The different way of thinking and reasoning is part of what is known as
- micro analysis.
 - technology transfer.
 - observation.
 - entrepreneurial cognition.
 - experimentation.

ANS: D PTS: 1 DIF: E OBJ: 6
NOT: Recall

30. Over a certain period of time, an entrepreneur changes the price of a specific product and tries to carefully measure what effect that change alone has on the number of that product that is sold. This process is known as
- reflection.
 - theorizing.
 - top down analysis.
 - systematic observation.
 - qualifying common sense.

ANS: D PTS: 1 DIF: M OBJ: 8
NOT: Application

31. A research method which refers to collecting a large amount of data about one organization that is used to draw conclusions about cause and effect relationships is known as
- case method.
 - business plan.
 - hypothesis.

- d. intrapreneur.
- e. technology transfer.

ANS: A PTS: 1 DIF: E OBJ: 8
NOT: Recall

ESSAY

1. Discuss Entrepreneurship as a field of business. What does it seek to understand?

ANS:

Entrepreneurship, as a field of business, seeks to understand how opportunities to create something new arise and are discovered or created. The opportunities are then researched and various means to exploit or develop them are identified. Entrepreneurship, as an activity carried out by specific persons, involves identifying an opportunity and identifying the activities involved in actually exploiting or developing this opportunity. It is also very important that an entrepreneur is able to run the new business successfully after it has come into existence.

PTS: 1 DIF: M OBJ: 1

2. Explain why entrepreneurship is an increasingly popular career choice and why the activities of entrepreneurs are so important to the economies of their countries.

ANS:

One reason entrepreneurship is becoming more popular is because the media are filled with glowing accounts of successful entrepreneurs who have become very wealthy. Also, entrepreneurs are becoming the new heroes and heroines, so it is not surprising that so many people are choosing to pursue this kind of career. Another reason is that the younger generation typically prefers a more independent lifestyle, one that offers choice in place of certainty or predictability. During the 1990's, more than 6 million jobs were downsized out of existence, yet unemployment rates fell to a record low. This was mainly the result of new companies being brought to life by entrepreneurs. As new businesses are developed, jobs are created and the economy is benefited.

PTS: 1 DIF: E OBJ: 2

3. Technological, economic, and social forces all play an important role in starting a new business or service. This is especially true with a company such as Expedia.Com. Expedia.Com is an on-line travel service that allows users to book airline flights and make travel arrangements via the Internet. Explain how the three above mentioned forces generated the opportunity for a company like Expedia.com to become popular.

ANS:

The business could not become popular until technological advances allowed millions of people access to the Internet and software was developed to integrate the schedules of dozens of airlines and the rates of thousands of hotels. From an economic stance, Expedia's service could not be viable until a safe and reliable way of making payments over the Internet existed. Also, airlines and hotels had to be willing to pay commissions to an Internet company. Finally, from the social perspective, in order for this type of company to be popular, there had to be a large number of people who had confidence in online information and would be willing to place their travel plans on the Internet.

PTS: 1 DIF: M OBJ: 4

4. List and discuss each of the five major phases of the entrepreneurship process.

ANS:

Recognition of an opportunity: The process begins when one or more persons recognize an opportunity. Opportunities have the potential to generate economic value and are viewed as desirable in the society in which they occur.

Deciding to proceed and assembling the essential resources: After the opportunity is recognized, the decision to do something active about the idea is required. This is where the business plan is developed.

Launching a new venture: Once the required resources are assembled, the new venture can actually be launched. This involves choosing the legal form of the new venture, developing the new product or service, establishing the roles of the top management team, etc.

Building success: This involves running the new venture and building it into a growing, profitable business. This often involves additional financial resources. No business can grow without talented, motivated employees, so at this phase of the process, issues such as how to attract such persons, motivate them, and prevent them from leaving become crucial.

Harvesting the rewards: Here, founders choose an exit strategy that allows them to harvest the rewards they have earned through their time, effort, and talents.

PTS: 1 DIF: M OBJ: 3

5. The authors of the textbook mention that Alexander Graham Bell as an entrepreneur. However, they say that Mr. Bell “did not invent the telephone out of sheer creative genius,” meaning that he did not invent the parts of the telephone from “scratch.” If he did not invent the parts of the telephone, explain how he could have been an entrepreneur.

ANS:

Being an entrepreneur includes identifying an opportunity that has potential value that can be exploited - sold in the marketplace - and developing the activities that can exploit and develop the opportunity. Stated another way, entrepreneurship is creating or recognizing the commercial application of something new. Even though he did not invent the parts, Alexander Graham Bell did create the new combination of the parts and created the telephone which was soon developed into a major and valuable product in the marketplace.

PTS: 1 DIF: M OBJ: 3

6. Explain why a higher degree of persistence in working to overcome challenges might help a person to be a better entrepreneur.

ANS:

Being a successful entrepreneur requires understanding and working with a large number of factors in developing an opportunity that results in commercial success - a profitable product or service in a business. In doing this, there almost certainly will be many things happening “all at once” and many challenges. A person who can handle the complex challenges and “keep at it” until it is successful will have a higher probability of being successful.

PTS: 1 DIF: M OBJ: 4

7. Do entrepreneurs think differently than other people?

ANS:

There is some evidence that entrepreneurs may think differently than other people in the following areas:

They may perceive risk differently, seeing risk as lower or may be more tolerant of it.

They may be subject to some errors in that they might be overly optimistic.

They may be more capable of seeing connections between things, thereby being better able to recognize opportunities.

They may be more likely to think longer and harder about things, thereby being able to understand challenging situations better.

They may be better able to identify good opportunities by using more complete and accurate approaches to understand situations.

PTS: 1

DIF: M

OBJ: 6