

Business in Action, 10e (Bovee/Thill)
Chapter 1 Developing a Business Mindset

1) _____ is money that an organization brings in through the sale of its goods and services.

- A) Competitive advantage
- B) Revenue
- C) Sales
- D) Capital investment

Answer: B

Explanation: Revenue is the money a company brings in through the sale of goods and services.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

2) Why is the link between risk and reward critical for a business?

- A) It is a key aspect of social responsibility
- B) It provides opportunities for not-for-profit organizations to stay in business
- C) It is essential to the counter-cyclical business model
- D) It provides incentive to take on the risk

Answer: D

Explanation: Without the promise of rewards, businesses would have no incentive to take on the risks. And without entrepreneurs and companies willing to accept risk, little would get done in the economy.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

3) A(n) _____ is a framework of how a business intends to generate revenue.

- A) business model
- B) strategic management tool
- C) profitability analysis
- D) competitive advantage

Answer: A

Explanation: A company's business model is a clear, simple outline of how the business intends to generate revenue.

Difficulty: 1: Easy

AACSB: Analytical thinking

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

4) _____ is the term used to describe the difference between revenue and expenses.

- A) Profit
- B) Interest
- C) Sales
- D) Owner's equity

Answer: A

Explanation: Profit is the amount of money left over after all the costs involved in doing business, have been deducted from revenue.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

5) _____ refers to some aspect of a product or company that makes it more appealing to target customers.

- A) Competitive advantage
- B) Economies of scale
- C) Horizontal integration
- D) Vertical integration

Answer: A

Explanation: Competitive advantage refers to some aspect of a product or company that makes it more appealing to target customers.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

6) Which type of organization seeks to operate efficiently and effectively to achieve its goals without focusing on profit as a motive?

- A) Business intermediary
- B) Nonprofit organization
- C) Service business
- D) Goods-producing business

Answer: B

Explanation: Not-for-profit organizations (also known as nonprofit organizations) such as museums, most universities, and charities do not have a profit motive.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

7) If individuals and companies believe they can pursue rewards without facing the risks that should be attached to those pursuits, they are more likely to engage in irresponsible and even unethical behavior. This situation is known as a(n) _____.

- A) moral hazard
- B) professional dilemma
- C) barrier to entry
- D) competitive advantage

Answer: A

Explanation: If individuals and companies believe they can pursue rewards without facing the risks that should be attached to those pursuits, they are more likely to engage in irresponsible and even unethical behavior—a situation known as moral hazard.

Difficulty: 2: Moderate

AACSB: Ethical understanding and reasoning

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

8) How do businesses generate revenue and satisfy the needs of the customers?

- A) By continuously adding value during product creation
- B) By expanding geographic reach as often as possible
- C) By limiting the flow of goods in the free-market economy
- D) By offering products at the lowest prices possible

Answer: A

Explanation: A good way to understand what any business does is to view it as a system for satisfying customers by transforming lower-value inputs into higher-value outputs. At every stage, a company adds value to create the product in a way that makes it appealing to the next customer in the chain.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

9) A business is any profit-seeking organization that provides goods and services designed to satisfy customers' needs.

Answer: TRUE

Explanation: In a general sense, business can be defined as any profit-seeking organization that provides goods and services designed to satisfy customers' needs.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

10) Profit refers to the money the company brings in through the sale of goods and services.

Answer: FALSE

Explanation: Profit is the amount of money left over after expenses—all the costs involved in doing business—have been deducted from revenue.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

11) Businesses add value by transforming lower-value inputs (like paper and ink) into higher-value outputs (like textbooks).

Answer: TRUE

Explanation: Businesses add value by transforming lower-value inputs to higher-value outputs. In other words, they make goods and services more attractive from the buyer's perspective.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

12) In a free-market economy, companies generally have limited autonomy in deciding which customers they want to focus on and how they want to compete.

Answer: FALSE

Explanation: In a free-market economy, companies generally have considerable freedom in deciding which customers they want to focus on and how they want to compete.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

13) A company has competitive advantage when its products are more appealing to its chosen customers.

Answer: TRUE

Explanation: Competitive advantage makes a company's products or the company as a whole more appealing to its chosen customers.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

14) An app on your cell phone is an example of a tangible product.

Answer: FALSE

Explanation: Tangible goods have a physical presence. Intangible products create value by performing activities that deliver some benefit to the customer. They do not have physical presence. Software and downloadable music are other types of intangible products.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

15) How are not-for-profit organizations different from most businesses?

Answer: The driving forces behind most businesses are the prospects of earning profits and building assets, which are anything of meaningful value, from patents and brand names to real estate and company stock. In contrast, not-for-profit organizations (also known as nonprofit organizations) such as museums, most universities, and charities do not have a profit motive. However, similar to goods-producing businesses, they must operate efficiently and effectively to achieve their goals. A nonprofit organization might use many of the business-management principles used by other businesses such as a goods-producing business.

Difficulty: 3: Challenging

AACSB: Analytical thinking

LO: 1.1: Explain the concept of adding value in a business, and identify four useful ways to categorize businesses.

16) _____ refers to a view of business that considers the many decisions that must be made and the potential problems that must be overcome before the organization can deliver its products or services.

A) Business mindset

B) Service orientation

C) Free-market philosophy

D) Competitive advantage

Answer: A

Explanation: A business mindset refers to a view of business that considers the many decisions that must be made and the potential problems that must be overcome before the organization can deliver its products or services.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

17) What key aspect of running a business includes the ability to offer valuable goods and services while contributing to society?

- A) Corporate social responsibility
- B) Business mindset
- C) Opportunities in the marketplace
- D) Vertical integration

Answer: A

Explanation: Business has the potential to contribute to society in many useful ways including offering goods and services, providing employment, paying taxes, and contributing to national growth, stability, and security.

Difficulty: 2: Moderate

AACSB: Analytical thinking

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

18) Businesses can impact society in both positive and negative ways. Occupying land and displacing existing businesses are examples of _____.

- A) generating pollution
- B) disrupting communities
- C) creating waste
- D) creating safety risks

Answer: B

Explanation: From occupying land to displacing existing businesses to overloading schools and roads with employees and their children, growing businesses can disrupt communities even as they provide employment and other benefits. And when businesses fall into decline, they can leave behind everything from abandoned buildings to laid-off workers.

Difficulty: 2: Moderate

AACSB: Analytical thinking

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

19) Who are the people who apply entrepreneurial strategies to cause large-scale social change?

- A) Government regulators
- B) Social responsibility leaders
- C) Social entrepreneurs
- D) Business mindset entrepreneurs

Answer: C

Explanation: Social entrepreneurs, people who apply entrepreneurial strategies to enable large-scale social change, use business concepts to create change.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

20) Managers and consumers generally have similar perspectives when it comes to the image and price of a product.

Answer: FALSE

Explanation: Managers and consumers generally have different perspectives about products.

Consumers might want to know about price and how the product will make them feel. Managers are more concerned with the cost of making the product and how well the product represents the organization.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

21) Businesses can have both positive and negative effects on society.

Answer: TRUE

Explanation: The relationship between business and society is complex and far-reaching.

Businesses can have both positive and negative effects on society.

Difficulty: 1: Easy

AACSB: Application of knowledge

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

22) Compare and contrast the perspective of a business professional with that of a consumer.

Answer: Consumer experiences include the impact of poor customer service, a sense for product value, and the entire experience of searching for, purchasing, and owning products. While a customer thinks about the cost of buying a particular product, a business professional thinks about the cost of making it, promoting it, and distributing it. A business professional focuses on what it takes to make a product stand out from the crowd and recognizes the importance of finding opportunities in the marketplace. They start to develop a business mindset which involves an appreciation for the many decisions that must be made and the many challenges that must be overcome before companies can deliver the products that satisfy customer needs.

Difficulty: 3: Challenging

AACSB: Analytical thinking

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

23) Discuss the positive and negative role of business in society.

Answer: A business professional needs to recognize the positive and negative effects that business can have on society. Business has the potential to contribute to society in many useful ways, such as:

- Offering valuable goods and services.
 - Providing employment, which enables employees to provide for themselves and their families.
- In addition, many companies help their employees meet the costs of health care, child care, insurance, retirement, and other living expenses.
- Paying taxes. Money collected from taxes that helps build highways, fund education, further scientific research, enhance public safety and national defense, and support other vital functions of government.
 - Contributing to national growth, stability, and security. Beyond the mere dollars of taxes paid, a strong economy helps ensure a strong country.

However, businesses don't always operate in ways that benefit society. The potentially negative effects that business can have on society include generating pollution and creating waste, creating health and safety risks, disrupting communities, and causing financial instability. The potential negative effects of business are serious matters, but employees can conduct themselves in ways that balance the profit motive with society's shared interests.

Difficulty: 3: Challenging

AACSB: Ethical understanding and reasoning

LO: 1.2: List three steps you can take to help make the leap from consumer to business professional.

24) _____ refers to the resources or capabilities a company must have before it can start competing in a given market.

- A) Fixed costs
- B) Economies of scale
- C) Barriers to entry
- D) Technological requirements

Answer: C

Explanation: Barrier to entry is a resource or capability a company must have before it can start competing in a given market.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

25) Businesses that need very large amounts of money, equipment, or other material resources in order to get started are _____ businesses.

- A) service sector
- B) labor-intensive
- C) competitively-advantaged
- D) capital-intensive

Answer: D

Explanation: Because they require large amounts of money, equipment, land, and other resources to get started and to operate, goods-producing businesses are often capital-intensive businesses.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

26) Population trends that change the composition of consumer markets and the workforce are a part of a company's _____ environment.

- A) economic
- B) regulatory
- C) technological
- D) social

Answer: D

Explanation: Every business operates within the broad social environment, the trends and forces in society at large. For instance, all companies are affected by population trends that change the composition of consumer markets and the workforce.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

27) Which one of the following is true regarding the economic environment of business that shapes the behavior of buyers and sellers?

- A) Forces resulting from the practical application of science are affected by the economic environment.
- B) Virtually every decision made is influenced by the economic environment.
- C) Laws and regulations that restrain, support, and protect businesses protect the economic environment.
- D) Targeted customers and competitors that market similar products will not affect the economic environment.

Answer: B

Explanation: Conditions and forces in the economic environment affect the cost and availability of goods, services, and labor; so they shape the behavior of buyers and sellers.

Difficulty: 2: Moderate

AACSB: Analytical thinking

LO: 1.3: Discuss the five major environments in which every business operates.

28) All groups affected by a company's activities are referred to as its _____.

- A) suppliers
- B) customers
- C) stakeholders
- D) employees

Answer: C

Explanation: Stakeholders refers to the internal and external groups affected by a company's decisions and activities.

Difficulty: 1: Easy

AACSB: Ethical understanding and reasoning

LO: 1.3: Discuss the five major environments in which every business operates.

29) Which of the following represents those forces that result from the practical application of science to innovations, products, and processes?

- A) Business mindset
- B) Research and development
- C) Purpose-driven business
- D) Technological environment

Answer: D

Explanation: The technological environment refers to forces resulting from the practical application of science to innovations, products, and processes.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

30) The conditions that affect the cost and availability of goods, services and labor, and the behavior of buyers and sellers are considered to be part of which environment?

- A) Market
- B) Regulatory
- C) Legal
- D) Economic

Answer: D

Explanation: Virtually every decision a company makes is influenced by the economic environment, the conditions and forces that (a) affect the cost and availability of goods, services, and labor and (b) thereby shape the behavior of buyers and sellers.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

31) Which of the following is included in the legal and regulatory environment of a business?

- A) Demographics
- B) Technological innovation
- C) The number of competitors in the market
- D) The speed of obtaining licenses

Answer: D

Explanation: Every business is affected by the legal and regulatory environment, the sum of laws and regulations at the local, state, national, and even international level.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

32) The policies and practices of government bodies, including laws and regulations, shape the _____ environment for a business.

- A) legal and regulatory
- B) technological
- C) economic
- D) market

Answer: A

Explanation: Every business is affected by the legal and regulatory environment, the sum of laws and regulations at the local, state, national, and even international level. The policies and practices of government bodies also establish an overall level of support for businesses operating within their jurisdictions.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

33) Which of the following is a component of the specific market environment within which each business operates?

- A) Ethical restrictions
- B) Competitors
- C) Technological innovations
- D) Environmental restrictions

Answer: B

Explanation: Every company operates within a specific market environment composed of three important groups: (1) its target customers, (2) buying influences that shape the behavior of those customers, and (3) competitors—other companies that market similar products to those customers.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

34) Which business environment considers the company's target customers, the buying influences that shape the behavior of those customers, and competitors that market similar products to those customers?

- A) Regulatory environment
- B) Social environment
- C) Economic environment
- D) Market environment

Answer: D

Explanation: Market environment refers to a company's target customers, the buying influences that shape the behavior of those customers, and competitors that market similar products to those customers.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.

35) The practical application of science to products and innovations has the potential to create change in almost every facet of business, as part of the _____.

- A) social environment
- B) regulatory environment
- C) technological environment
- D) economic environment

Answer: C

Explanation: Technological environment stems from the practical application of science to innovations, products, and processes. Technological advances have the potential to change every facet of business, from altering internal processes to creating or destroying market opportunities.

Difficulty: 2: Moderate

AACSB: Reflective thinking

LO: 1.3: Discuss the five major environments in which every business operates.

36) What part of the market environment shapes the behavior of customers?

- A) Target market
- B) Buying influences
- C) Competitors
- D) Regulatory influences

Answer: B

Explanation: A market environment is composed of three important groups: (1) its target customers, (2) the buying influences that shape the behavior of those customers, and (3) competitors.

Difficulty: 2: Moderate

AACSB: Application of knowledge

LO: 1.3: Discuss the five major environments in which every business operates.