TT TEXTBOOK TESTBANKS

Test Bank for Small Business Management 8th Hatten

TEST BANK SAMPLE PREVIEW

PUBLISHER
Sage

COPYRIGHT
2025

RESOURCE TYPE
Test Bank

ISBN
9781071848173

Test Bank for Small Business Management 8th Edition by Hatten

ISBN: 9781071848173

Small Business Management (8th)

ISBN 9781071848173 | Chapter 1: Small Business: An Overview

Total Questions: 92

Easy

Multiple Choice (31)

Q1. *[Multiple Choice]*

What percentage of net new jobs do small businesses create annually?

- **a)** from 10 to 25 percent
- **b)** from 40 to 50 percent
- **c) from 60 to 80 percent ✓ correct**
- **d)** from 85 to 100 percent

Q2. *[Multiple Choice]*

How many people in the United States make a small business their primary occupation?

- **a)** 2 million
- **b)** 6 million
- **c) 12 million ✓ correct**
- **d)** 25 million

Q3. *[Multiple Choice]*

Which U.S. industry employs the greatest number of people in small business?

- **a)** construction
- **b)** manufacturing
- **c)** retail businesses
- **d) services ✓ correct**

Q4. *[Multiple Choice]*

Approximately what percentage of businesses in the service sector are classified as small?

- **a) 70 percent ✓ correct**
- **b)** 50 percent
- **c)** 30 percent
- **d)** 10 percent

Q5. *[Multiple Choice]*

Although the Small Business Administration (SBA) standards set a threshold of 500 employees to consider an enterprise a small business in some industries, the most common threshold used to define a small business is ______ employees.

- **a)** 10
- **b)** 50
- **c) 100 ✓ correct**
- **d)** 200

Q6. *[Multiple Choice]*

Until the early 1800s, most goods were produced ______.

- **a)** by small manufacturers
- **b) by workers in their cottages or small studios ✓ correct**
- **c)** by large factories
- **d)** by large groups of workers in the town hall

Q7. *[Multiple Choice]*

The marketing concept was a paradigm shift that involved a focus on ______.

- **a)** production
- **b)** quality
- **c) consumer wants and needs ✓ correct**
- **d)** marketing

Q8. *[Multiple Choice]*

What start-up business used a flatter organizational structure, improved customer service, and more flexibility to knock Sears out of its role as the world's largest retailer in the 1970s?

- **a)** Kmart
- **b)** Woolco
- **c) Walmart ✓ correct**
- **d)** Target

Q9. *[Multiple Choice]*

What is the approximate annual revenue generated by Hispanic-owned businesses in the United States?

- **a)** $870 billion
- **b) $460 billion ✓ correct**
- **c)** $135 billion
- **d)** $36 billion

Q10. *[Multiple Choice]*

SBA 8(a) certification provides preference in bidding on federal and state contracts to ______.

- **a)** women only
- **b)** minorities only
- **c) women and minorities ✓ correct**
- **d)** first-generation Americans

Q11. *[Multiple Choice]*

Women-owned businesses generate approximately what percent of employment in the United States?

- **a)** 14
- **b)** 21
- **c) 35 ✓ correct**
- **d)** 42

Q12. *[Multiple Choice]*

During a company conference, the chemical producer Hoechst Celanese found that diversity in the workforce was particularly beneficial in which area?

- **a) problem solving ✓ correct**
- **b)** reaching a consensus
- **c)** exploring one point of view
- **d)** researching information

Q13. *[Multiple Choice]*

Small businesses are more able than big businesses to perform efficiently in which of the following areas?

- **a)** management
- **b)** higher profit margins
- **c)** fewer expenses
- **d) distribution ✓ correct**

Q14. [Multiple Choice]

Which of the following are the qualities of small businesses that work in their favor?

a) flexibility and innovation ✓ correct
b) management expertise
c) emphasis on variety
d) emphasis on quantity

Q15. [Multiple Choice]

The ability to offer greater value than other businesses in your industry is called which of the following?

a) quality assessment
b) reduction in the price charged
c) competitive advantage ✓ correct
d) qualitative advantage

Q16. [Multiple Choice]

The stronger and more sustainable the competitive advantage a small business maintains, the better its chances of ______.

a) guaranteeing a profit
b) winning and keeping customers ✓ correct
c) obtaining a loan from a bank
d) entering the international market

Q17. [Multiple Choice]

The incentive for innovation of new ideas and products is generally strongest for ______.

a) research and development divisions of large companies
b) small businesses ✓ correct
c) government-funded research laboratories
d) colleges and universities

Q18. [Multiple Choice]

Developing a new way to organize physical inputs to produce a product or service refers to ______.

a) process innovation ✓ correct
b) product innovation
c) service innovation
d) management innovation

Q19. [Multiple Choice]

Creating a new way to organize a business's resources involves ______.

a) process innovation
b) product innovation
c) service innovation
d) management innovation ✓ correct

Q20. [Multiple Choice]

The most common types of innovations produced by small business relate to ______.

a) service and products ✓ correct
b) manufacturing
c) management techniques
d) financial deal structures

Q21. *[Multiple Choice]*
The process of creative destruction involves which of the following?

- **a)** the destruction of current products
- **b)** the replacement of current products
- **c)** the innovation of new products
- **d) the replacement of existing products with new and better products ✓ correct**

Q22. *[Multiple Choice]*
The valuable skills and knowledge that employees of a business possess are collectively called ______.

- **a)** business assets
- **b)** tangible inventory
- **c)** outsourcing
- **d) intellectual capital ✓ correct**

Q23. *[Multiple Choice]*
The lifeblood of any new small business is which of the following?

- **a) cash ✓ correct**
- **b)** a large target market
- **c)** vendor contracts
- **d)** a quality product or service

Q24. *[Multiple Choice]*
The most valuable asset a small business owner has is ______.

- **a)** a quality product
- **b)** buildings and equipment
- **c)** a good relationship with a financial institution
- **d) employees ✓ correct**

Q25. *[Multiple Choice]*
Intellectual capital is the skill and knowledge possessed by ______.

- **a)** the business owner
- **b)** the business consultant
- **c) the employees of the business ✓ correct**
- **d)** the banker for a small business

Q26. *[Multiple Choice]*
A business failure has occurred when a business closes due to ______.

- **a)** a merger
- **b)** the owner's retirement
- **c)** being acquired
- **d) a reorganization ✓ correct**

Q27. *[Multiple Choice]*
A common cause of business failure is ______.

- **a)** choosing the wrong type of business ownership
- **b)** trying to grow the business too quickly
- **c) estimating cash flow inaccurately ✓ correct**
- **d)** having generalized management knowledge

Q28. [Multiple Choice]

A partnership that is restructured or a business that moves to a new location is considered to be which of the following?

- **a)** business failure
- **b) business termination ✓ correct**
- **c)** business success
- **d)** business venture

Q29. [Multiple Choice]

According to the U.S. Census Bureau, approximately ______ of closed businesses were successful at the time of their closure.

- **a)** one-quarter
- **b) one-third ✓ correct**
- **c)** two-thirds
- **d)** half

Q30. [Multiple Choice]

Which percentage of small businesses are forced out of business with financial loss to creditors?

- **a)** 10 percent
- **b) 20 percent ✓ correct**
- **c)** 50 percent
- **d)** 75 percent

Q31. [Multiple Choice]

What percentage of small businesses have closed owing money to creditors they cannot pay?

- **a)** 10 percent
- **b) 20 percent ✓ correct**
- **c)** 50 percent
- **d)** 75 percent

True/False (31)

Q32. [True/False]

The Small Business Administration (SBA) estimates there are over 220 million small businesses in the United States.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q33. [True/False]

There are over 50 million gig workers—independent freelancers who perform temporary, flexible jobs—in the United States.

- **a) True ✓ correct**
- **b)** False

Correct answer: True

Q34. [True/False]

Of all U.S. companies exporting goods, few are classified as small businesses.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q35. *[True/False]*
Small businesses create more than 50 percent of all private U.S. gross domestic product (GDP).

a) True
b) False ✓ correct

Correct answer: False

Q36. *[True/False]*
While there are several definitions of a small business, the most common criterion is the number of workers the business employs.

a) True ✓ correct
b) False

Correct answer: True

Q37. *[True/False]*
The Small Business Association (SBA) classifies a manufacturer with fewer than 500 employees as a small business.

a) True ✓ correct
b) False

Correct answer: True

Q38. *[True/False]*
The U.S. industry that employs the largest number of people in small business is the manufacturing industry.

a) True
b) False ✓ correct

Correct answer: False

Q39. *[True/False]*
In the U.S. construction industry, less than two-thirds of the companies are classified as small businesses.

a) True
b) False ✓ correct

Correct answer: False

Q40. *[True/False]*
According to the U.S. Census Bureau, a microbusiness has fewer than five employees, including the owner.

a) True ✓ correct
b) False

Correct answer: True

Q41. *[True/False]*
Economy of scale is the lowering of costs through production of larger quantities.

a) True ✓ correct
b) False

Correct answer: True

Q42. *[True/False]*
Until the early 1800s, much of the U.S. economy was based on agriculture.

a) True ✓ correct
b) False

Correct answer: True

Q43. *[True/False]*

Interest in entrepreneurship on U.S. campuses is high, with thousands of educational institutions offering courses on the subject.

a) True ✓ correct

b) False

Correct answer: True

Q44. *[True/False]*

Self-employment among all minorities in the United States has seen large percentage gains since 2016.

a) True ✓ correct

b) False

Correct answer: True

Q45. *[True/False]*

Businesses owned by women make up approximately one-fourth of privately owned businesses.

a) True

b) False ✓ correct

Correct answer: False

Q46. *[True/False]*

Resources exist to specifically assist women- and minority-owned businesses.

a) True ✓ correct

b) False

Correct answer: True

Q47. *[True/False]*

Although small businesses tend to enjoy a higher profit margin due to their economies of scale, large businesses are often better at distribution.

a) True

b) False ✓ correct

Correct answer: False

Q48. *[True/False]*

To be successful, big businesses need small businesses.

a) True ✓ correct

b) False

Correct answer: True

Q49. *[True/False]*

A symbiotic relationship exists between small businesses and big businesses.

a) True ✓ correct

b) False

Correct answer: True

Q50. *[True/False]*

The stronger and more sustainable a business’s competitive advantage, the better its chance of winning and then keeping customers.

a) True ✓ correct

b) False

Correct answer: True

Q51. *[True/False]*

A small business is able to react less quickly to new and changing markets than is a large business with its increased economies of scale.

a) True

b) False ✓ correct

Correct answer: False

Q52. *[True/False]*

The ability to remain flexible and innovative is a factor in favor of small businesses.

a) True ✓ correct

b) False

Correct answer: True

Q53. *[True/False]*

Computers are an invention that small business has contributed to society.

a) True ✓ correct

b) False

Correct answer: True

Q54. *[True/False]*

Service innovation involves bringing a new or altered service to market.

a) True ✓ correct

b) False

Correct answer: True

Q55. *[True/False]*

Most small businesses use market research as the primary means of learning about customers.

a) True

b) False ✓ correct

Correct answer: False

Q56. *[True/False]*

Creative destruction refers to the closure of small businesses due to a failure to innovate.

a) True

b) False ✓ correct

Correct answer: False

Q57. *[True/False]*

Economist Joseph Schumpeter came up with the term “creative destruction” to refer to the replacement of existing products, processes, ideas, and businesses with new and better ones.

a) True ✓ correct

b) False

Correct answer: True

Q58. *[True/False]*

The lifeblood of any new business is sufficient cash on hand.

a) True ✓ correct

b) False

Correct answer: True

Q59. *[True/False]*

Most new businesses do not survive past their first year.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q60. *[True/False]*

The most common causes of business failure are inadequate management and financing.

- **a) True ✓ correct**
- **b)** False

Correct answer: True

Q61. *[True/False]*

Lack of marketing experience is one of the primary contributors to small business failure.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q62. *[True/False]*

External factors beyond a small business owner’s control are to blame for most business failures.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Medium

Multiple Choice (8)

Q63. *[Multiple Choice]*

What characteristics of a business are commonly used to determine whether it is a small business?

- **a) Number of employees, sales revenue, value of assets, value of owner equity ✓ correct**
- **b)** Number of employees, return on investment, value of assets, value of debts
- **c)** Sales revenue, return on investment, annual growth, value of owner equity
- **d)** Sales revenue, value of assets, value of owner equity, value of debts

Q64. *[Multiple Choice]*

The term “economy of scale” refers to which of the following?

- **a)** increasing costs through the production of larger quantities
- **b) decreasing costs through the production of larger quantities ✓ correct**
- **c)** decreasing costs through the production of smaller quantities
- **d)** increasing costs through the production of smaller quantities

Q65. *[Multiple Choice]*

Why has the number of U.S. college students studying entrepreneurship increased so dramatically since the early 1970s?

- **a)** More students study business in the standard high school curriculum and wish to continue.
- **b)** The economy has been uncertain, so starting one’s own business seems like a good backup plan.
- **c)** Large employers have worse pay and benefits than the typical startup.
- **d) The cost of mistakes in time and money for a small business is high, and education can help prevent those mistakes. ✓ correct**

Q66. *[Multiple Choice]*

Large telecommunications companies have an incentive to improve existing products and services to better serve their customers, rather than invent new products. This best demonstrates what aspect of innovation in business?

- **a)** Research and development departments in large companies fuel innovation.
- **b)** Compared to larger companies, small businesses are not financially equipped to innovate.
- **c) Real innovation tends to come from independent inventors and small businesses. ✓ correct**
- **d)** Large companies are too inflexible to handle real innovation.

Q67. *[Multiple Choice]*

In order to take advantage of economies of scale, large businesses usually devote resources ______.

- **a)** to producing selected quantities of products
- **b) to producing large quantities of products ✓ correct**
- **c)** to a given product for only a short time
- **d)** flexibly so as to respond quickly to a changing market

Q68. *[Multiple Choice]*

Big business competes based on mass production and, thus, lower prices. Small business can compete based on ______.

- **a) specialty products and personalized service ✓ correct**
- **b)** manufacturing closer to markets
- **c)** brand recognition and strong marketing
- **d)** access to large amounts of capital

Q69. *[Multiple Choice]*

The most common cause of business failure is ______.

- **a)** choosing the wrong type of business ownership
- **b)** starting a business that is too innovative
- **c)** spending too much on marketing and salaries
- **d) lack of management experience and financing ✓ correct**

Q70. *[Multiple Choice]*

A business failure occurs when a business ______.

- **a)** closes because the owner retires
- **b)** ceases to exist because it is sold to another company
- **c)** closes because demand for the product declines
- **d) closes with financial losses to creditors ✓ correct**

True/False (4)

Q71. *[True/False]*

The marketing concept was a paradigm shift that focused on new advertising media.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q72. *[True/False]*

According to the U.S. Census Bureau, Hispanic-owned businesses generate the most annual revenue of all U.S. minority-owned businesses.

- **a)** True
- **b) False ✓ correct**

Correct answer: False

Q73. *[True/False]*

According to the U.S. Census Bureau, there are over 1.9 million Asian-owned businesses, and they generated annual revenue of over $870 billion.

- **a) True ✓ correct**
- **b)** False

Correct answer: True

Q74. *[True/False]*

Women, African Americans, and Hispanics are a larger percentage of owners of businesses with no employees than of businesses with employees.

- **a) True ✓ correct**
- **b)** False

Correct answer: True

Essay (4)

Q75. *[Essay]*

Describe the three primary characteristics that are generally agreed upon as defining an enterprise as a small business?

> ***Suggested answer:*** *Sample response: A small business is most often defined as one having fewer than 100 employees. It is independently owned, operated, and financed. It has relatively little impact on its industry.*

Q76. *[Essay]*

Briefly discuss the value of diversity in business.

> ***Suggested answer:*** *Sample response: Diversity in the workplace can promote more creative problem solving. A varied workforce is needed at every level of an organization.*

Q77. *[Essay]*

Explain three advantages that contribute to the success of a small business.

> ***Suggested answer:*** *Sample response: [Any three of the following] A small business should identify its competitive advantage—that is, how it offers customers more value than they can get from competitors. Small businesses have an edge over larger competitors, which invest in the ability to make products or deliver services at scale, in their ability to be flexible and innovative. Because of their size, small businesses often enjoy closer, more personal relationships with their customers than large businesses do, allowing them to get better information about what their customers want and offer more personalized service. Because small businesses do not produce in large quantities, they are often positioned to strive for quality, which they can leverage profitably.*

Q78. *[Essay]*

Describe the four primary types of innovation.

> ***Suggested answer:*** *Sample response: Product innovation involves developing a new or improved product. Service innovation means offering a new or different service. With process innovation, the company develops a new way to organize physical inputs to produce a product or service. Management innovation involves creating a new way to organize the organization's resources.*

Hard

Multiple Choice (14)

Q79. *[Multiple Choice]*

Ronald Meese is the owner and operator of Meese Mining. To be considered a small business by the Small Business Association (SBA), what is the maximum number of employees that Ronald can employ?

- **a)** 50
- **b)** 100
- **c)** 200
- **d) 500 ✓ correct**

Q80. *[Multiple Choice]*

William Smith works for a data processing company that employs more than 500 employees at certain times of the year but generates annual revenue of less than $25 million. Based on this information, the Small Business Association (SBA) would consider the company a ______.

- **a)** conglomerate
- **b)** corporation
- **c) small business ✓ correct**
- **d)** franchise

Q81. *[Multiple Choice]*

John Deere relies on hundreds of vendors to produce component parts for its farm equipment. This illustrates which secret of small business success?

- **a)** Small businesses have competitive advantage over large businesses.
- **b) A symbiotic relationship exists between small and large businesses. ✓ correct**
- **c)** Small businesses perform more efficiently than larger ones.
- **d)** Small businesses are able to innovate more easily than larger ones.

Q82. *[Multiple Choice]*

You own a small business that offers printing services, including making high-speed color copies. You are currently the only company in your metro area that offers such a service. You currently have ______.

- **a)** creative destruction
- **b) a competitive advantage ✓ correct**
- **c)** a qualitative advantage
- **d)** a capital advantage

Q83. *[Multiple Choice]*

Linda Waters, a chemical engineer at a large pharmaceutical company, has led a team in the development of a new drug that effectively treats the common flu faster than any other drug on the market. This is an example of what type of innovation?

- **a)** process innovation
- **b) product innovation ✓ correct**
- **c)** service innovation
- **d)** management innovation

Q84. *[Multiple Choice]*

Allen Campbell’s small business selling tires has recently closed due to credit foreclosure. This is an example of ______.

- **a)** voluntary withdrawal
- **b)** bankruptcy
- **c) business failure ✓ correct**
- **d)** adequate management

Q85. *[Multiple Choice]*

Sam had to shut down her home-based consulting company after only two years because she had not anticipated the 80-hour weeks required to service clients and acquire new ones. This is an example of which mistake leading to business failure?

- **a) failing to understand the level of commitment required ✓ correct**
- **b)** neglecting to establish a road map for the future
- **c)** not using employees effectively
- **d)** mishandling finances

Q86. *[Multiple Choice]*

Lawrence is starting an interior decorating business with his brother. To begin with, he and his brother will not only be the owners but also the sole workers. However, they plan to contract work out to other industry professionals as soon as they have enough clients, when annual revenues will be about $500,000. If Lawrence seeks specialized sources of funding, he should approach organizations and investors that support which kind of business?

- **a)** large business
- **b)** corporation
- **c) microbusiness ✓ correct**
- **d)** nonprofit organization

Q87. *[Multiple Choice]*

Gabi owns a small business that makes custom shelving and other storage. This year, she had an opportunity to purchase a supply of exotic woods and antique fixtures. Although the investment required most of her cash, she felt confident spending the money because she has heard from clients that they appreciate unusual materials. What factor is giving Gabi a competitive advantage?

- **a) close relationships with customers ✓ correct**
- **b)** hiring for innovation
- **c)** management innovation
- **d)** sufficient start-up capital

Q88. *[Multiple Choice]*

As an expert in tree care, Winnie felt confident starting a business as an arborist. As a small business owner, however, she finds she needs to make decisions in the areas of finances, human resources, marketing, and bookkeeping. She is feeling overwhelmed. What should Winnie do to address this concern?

- **a) Learn and develop her management skills. ✓ correct**
- **b)** Hire expert consultants in each management area.
- **c)** Focus on tree care where she is an expert.
- **d)** Raise enough funding that making mistakes will not matter.

Q89. *[Multiple Choice]*

When small business owner Franky hires employees, he likes to give opportunities to people who do not yet have much work experience or education. Then he seeks to develop their knowledge and skills. In return, he hopes they will be loyal to his company and contribute for a long time. What company resource is Franky seeking to grow?

- **a)** financial capital
- **b) intellectual capital ✓ correct**
- **c)** monetary capital
- **d)** social capital

Q90. *[Multiple Choice]*

A friend is thinking of starting a small business, but her family has told her that it would be too risky because almost all small businesses fail. What information would you give her?

a) Each year, more small businesses start than close, and a third of the businesses that close were successful when they shut down. ✓ correct

b) Most small businesses fail because first-time founders cannot possibly know everything a business owner needs to know.

c) As long as she has a solid business plan and is willing to work hard, her business will be successful.

d) Most of the time when a small business closes, the owner has to declare bankruptcy because there is not enough money to pay creditors.

Q91. *[Multiple Choice]*

Karl has engaged you as a consultant to advise him as his small business begins to grow. Which of the following is an appropriate area of focus for Karl at this time?

a) Avoid making plans for the future since change is inevitable and flexibility is key.

b) Continue to do all the work themselves since they are more expert than anyone they could hire.

c) Present investors and lenders with financial projections that are realistic and acknowledge potential unexpected events. ✓ correct

d) Minimize the company's presence on the internet since it is too difficult to stand out in the large and crowded digital marketplace.

Q92. *[Multiple Choice]*

Jodee closed her business because subscriptions to her online workout classes had stayed level while her costs had gone up, and she was operating at a loss. She wanted to quit before she was in a position where she could not pay her bills. Jodee has experienced ______.

a) business termination ✓ correct

b) business failure

c) business innovation

d) business merger