Quiz - Ch. 6

Multiple Choice

Each answer is worth 4 points

1. The form of ownership entrepreneurs choose when they organize their business can affect

   a) the types of taxes the business must pay.
   b) how much liability they face for the debts of their company.
   c) the way the firm can obtain financial resources.
   d) all of the items in this list.

2. Sole proprietors have _________________ for the debts of the of their companies.

   a) no liability
   b) limited liability
   c) unlimited liability
   d) shared liability

3. A key advantage of a sole proprietorship is that

   a) it is easy and inexpensive to form this type of business.
   b) the owner has limited liability for the debts for this type of business.
   c) it is very easy to raise financial capital for this type of business.
   d) the business has perpetual life.

4. A serious drawback of sole proprietorships is that they

   a) are difficult and inexpensive to form.
   b) expose their owners to unlimited liability for the company's debts.
   c) result in double taxation of the company's earnings.
   d) are heavily regulated by the federal government.

5. Historically, the three basic forms of business ownership in the United States have been the

   a) sole proprietorship, partnership, and corporation.
   b) full partnership, nominal partnership, and silent partnership.
   c) joint venture, cooperative, and holding company.
   d) monopoly, duopoly, and oligopoly.

6. While sole proprietorships have recently generated a combined revenue figure of over $1 trillion, they do NOT

   a) outnumber the corporations and partnerships combined.
   b) generate the level of net income seen in partnerships and corporations.
   c) expand at the rate of corporations.
   d) grow financially.

7. Which of the following is NOT an accurate statement about a sole proprietorship?

   a) A sole proprietorship is easy and inexpensive to form.
   b) Legally, the business is considered separate and distinct from its owner.
   c) Most sole proprietorships are small businesses.
   d) Sole proprietorships are the most common form of business ownership.

8. In a _________, all partners have the right to actively participate in the management of the firm and to share in any profits or losses incurred by the business.

   a) general partnership
   b) limited liability partnership
   c) limited partnership
   d) sole proprietorship

9. Three types of partnerships are

   a) sole, general, and specific.
   b) general, unlimited, and general liability.
   c) specific, general, and generic.
   d) general, limited, and limited liability.

10. Sue has a great idea for a business but has limited financial assets. She wants to retain control over the management of the company, but she needs someone to provide additional financing. Her friend Tom has some money to invest and likes Sue's idea. He would like to share in any profits, but he doesn't have the time or interest in managing the company and is nervous about the liability involved in running a business. A _______________ would probably match the needs of both Sue and Tom.

    a) general partnership
    b) limited partnership
    c) sole proprietorship
    d) foreign corporation

11. A _________ is a form of business ownership that is considered to be separate from its owners, who are known as stockholders.

    a) sole proprietorship
    b) general partnership
    c) limited partnership
    d) corporation

12. A corporation must register as a _________ in every state in which it operates other than its state of incorporation.

    a) foreign corporation
    b) domestic corporation
    c) C corporation
    d) closed corporation

13. Suzanne Limley was just elected to the board of directors at United Bank Corporation. As a board member, she is expected to represent the interests of

    a) senior bank management.
    b) shareholders.
    c) creditors.
    d) customers.

14. An S corporation can have ______ shareholders with limited liability.

    a) an unlimited number of
    b) up to 25
    c) no more than 100
    d) a minimum of 100 and a maximum of 1000

15. A nonprofit corporation enjoys the benefit of

    a) earnings that are exempt from state and federal taxes.
    b) guaranteed dividends to shareholders.
    c) exemption from filing paperwork.
    d) limited liability for shareholders.

16. A key difference between S Corporations and C Corporations is that

    a) the owners of C corporations have limited liability while the owners of S corporations have unlimited liability.
    b) S corporations may have no more than 100 shareholders who must all be citizens or permanent residents of the United States, while C corporations do not have these restrictions on ownership.
    c) C corporations seek profits while S corporations operate as not-for-profit organizations.
    d) C corporations have stockholders who have the right to vote in stockholders' meetings while S corporations have members with no voting rights.

17. Suzanne Ragos is a Canadian citizen. Three friends in the United States recently told her about an S corporation in which they own stock. She would like to own stock in this company. Is this possible?
    a) no, because she is not a citizen of the United States.
    b) yes, because anyone can own stock in an S corporation as long as they are willing to fill out the appropriate paperwork.
    c) no, because stock in an S corporation cannot be held by more than three people.
    d) yes, because under the terms of NAFTA, Canadian citizens have the same rights to own shares of stock in an S corporation as American citizens.

18. In a(n) ______________, two or more companies agree to a combination of equals, creating one new company from the two previously independent companies.

    a) amalgamation
    b) merger
    c) corporate integration
    d) industrial concentration

19. A ___________ merger is the combination of firms in the same industry.

    a) hostile
    b) conglomerate
    c) vertical
    d) horizontal

20. A(n) _________ merger is the combination of two or more firms in unrelated industries.

    a) upward
    b) conglomerate
    c) vertical
    d) horizontal

21. One reason a firm would consider a ____________ merger would be to increase size and market power in its industry.

    a) generic
    b) conglomerate
    c) vertical
    d) horizontal

22. To increase production capacity and provide consumers with market stability, Exxon and Mobil created ExxonMobil. This would be an example of a _______ merger.

    a) conglomerate
    b) horizontal
    c) vertical
    d) limited liability

23. Which statement is TRUE about limited liability companies (LLCs)?

    a) LLCs are taxed like partnerships, and each member's income is accounted for with his or her personal income tax.
    b) LLCs do not pay franchise taxes.
    c) LLCs in their most common forms are banks, insurance companies, and nonprofit organizations.
    d) LLCs are the same entities state to state.

24. _________ is the contractual relationship in which an established firm supplies another business with unique resources in exchange for payment and other considerations.

    a) Franchising
    b) Formalizing
    c) Formatting
    d) Articles of incorporation

25. The _________ is the business entity in a franchise relationship that allows others to operate a business using resources it supplies in exchange for money and other considerations.

    a) general corporation
    b) partner
    c) franchisor
    d) franchisee