

## CHAPTER



# Business in the Free Enterprise

## Part 1: Content Review

### Matching

*Write the letter of the correct term for each definition on the line provided.*

#### Terms

- |                                |                   |
|--------------------------------|-------------------|
| A. not-for-profit organization | F. proprietorship |
| B. producer                    | G. stock          |
| C. wholesaler                  | H. dividend       |
| D. retailer                    | I. cooperative    |
| E. business market             | J. partnership    |

- \_\_\_\_\_ 1. A business that buys large quantities of products directly from producers and sells the products in smaller quantities to retailers.
- \_\_\_\_\_ 2. An association of two or more persons who co-own a business with the objective of earning a profit.
- \_\_\_\_\_ 3. A market that consists of customers who buy products for use in a business.
- \_\_\_\_\_ 4. A business that is owned and operated by those using its services.
- \_\_\_\_\_ 5. A business that buys products from wholesalers or directly from producers, and sells them to consumers to make a profit.
- \_\_\_\_\_ 6. A share of ownership in a corporation.
- \_\_\_\_\_ 7. An organization that exists to serve some public purpose.
- \_\_\_\_\_ 8. A business that is owned and often operated by a single individual.
- \_\_\_\_\_ 9. A business that creates goods and services.
- \_\_\_\_\_ 10. A portion of a corporation's earnings distributed to stockholders.

## Multiple Choice

*Place the letter of the correct answer to each question on the line provided.*

- \_\_\_\_\_ 1. Which of the following is an example of an intermediary?
- A. Auto manufacturer
  - B. Auto parts manufacturer
  - C. New car dealership
  - D. Auto repair shop
- \_\_\_\_\_ 2. \_\_\_\_\_ is a numeric system to classify businesses and collect economic statistics.
- A. B2B
  - B. NAICS
  - C. LLC
  - D. B2C
- \_\_\_\_\_ 3. Which is *not* an example of a not-for-profit organization?
- A. United Way
  - B. American Cancer Society
  - C. Microsoft
  - D. American Red Cross
- \_\_\_\_\_ 4. An accounting firm that prepares taxes for an advertising agency operates in the \_\_\_\_\_ market.
- A. business-to-consumer
  - B. consumer-to-business
  - C. business-to-business
  - D. consumer-to-consumer
- \_\_\_\_\_ 5. Which of the following is a business that is owned and operated by a single individual?
- A. Partnership
  - B. Proprietorship
  - C. Corporation
  - D. Cooperative
- \_\_\_\_\_ 6. The two common types of partnerships are \_\_\_\_\_.
- A. general and unlimited
  - B. general and cooperative
  - C. general and limited
  - D. limited and unlimited
- \_\_\_\_\_ 7. Which is *not* an advantage of a partnership form of ownership?
- A. Limited liability
  - B. Easy to start
  - C. Combined financial resources
  - D. Simple tax structure

Name \_\_\_\_\_

- \_\_\_\_\_ 8. Which is a form of business ownership provides limited liability to its owners, but is taxed as a partnership?
- A. S Corporation
  - B. Cooperative
  - C. Green business
  - D. Limited partnership
- \_\_\_\_\_ 9. A major advantage of forming a corporation is \_\_\_\_\_.  
A. profit  
B. limited life  
C. management  
D. limited liability
- \_\_\_\_\_ 10. Cooperatives are run \_\_\_\_\_.  
A. by the government  
B. democratically  
C. similarly to an LLC  
D. without voting members

## Completion

*In the space provided, write the word(s) that best completes each of the following statements.*

- \_\_\_\_\_ 1. One of the sole purposes of a for-profit business is to be productive and generate money for its \_\_\_\_\_.  
\_\_\_\_\_ 2. Governmental organizations are part of the \_\_\_\_\_ sector.  
\_\_\_\_\_ 3. The customer of a service business is often called a \_\_\_\_\_.  
\_\_\_\_\_ 4. The \_\_\_\_\_ market consists of customers who buy products for their own use.  
\_\_\_\_\_ 5. Wholesalers are often called \_\_\_\_\_.  
\_\_\_\_\_ 6. The simplest and most common form of business ownership is a(n) \_\_\_\_\_.  
\_\_\_\_\_ 7. A partner who does not participate in managing the business is a(n) \_\_\_\_\_ partner.  
\_\_\_\_\_ 8. The form of business ownership described as an “artificial person” is a(n) \_\_\_\_\_.  
\_\_\_\_\_ 9. The group of individuals who makes high-level management decisions for a corporation and establishes company policies is called the \_\_\_\_\_.  
\_\_\_\_\_ 10. The form of business ownership that combines the benefits of a corporation with those of proprietorships and partnerships is a(n) \_\_\_\_\_.

Name \_\_\_\_\_

# Part 2: Concept Review

## Open Response

*Write your response to each of the following statements or questions in the space provided. Use complete sentences.*

1. What is an intermediary? What benefit do they provide in business?

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2. What information should be detailed in the articles of partnership?

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3. What are the benefits and restrictions of an S corporation?

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Name \_\_\_\_\_

4. A disadvantage of proprietorships is unlimited liability. What is unlimited liability and why is it a disadvantage?

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5. A friend wants to start a business and asks your advice on the best form of ownership. She is very smart and experienced, and prefers to make important decisions by herself. She does not need to raise large sums of capital and wants to keep the costs of forming the business low. In addition, she has substantial personal wealth that she wants to keep separate from the business. Consider the following business forms: proprietorship, partnership, corporation, and limited liability company (LLC). Make a short argument for one of the forms of ownership for your friend.

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Name \_\_\_\_\_

## Part 3: Math Skills

### Word Problems

Basic math skills are essential to carry out the daily activities of a retail business. Real-life situations require that you understand how to interpret word problems. *Word problems* are exercises set up in text rather than presented with mathematical notation. There are two steps to solving a word problem. First, carefully read the problem and translate the wording into a numeric equation. Second, solve the equation.

*Complete the following problems. Show the equation and solve the problem.*

1. The free enterprise system is the driving force that enables retailers to make a profit and stay in business. Central Products is a manufacturer that generated sales of \$838,515 last year. Total expenses were \$719,311. What was the profit or loss last year?

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2. Sigma Gears is a manufacturer that operates in the same industry as Central Products. Sigma's sales were \$1,325,875 last year, with total expenses of \$1,269,288. What was Sigma Gear's profit or loss? Compare Sigma Gear's profit or loss to Central Products in the previous question. Which company earned more money last year?

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3. The term *value-added* describes any enhancement to a product or service that makes consumers want to buy. Comparison shopping is a simple way to learn which product to buy and where to get the best value. You want to purchase a hot water heater. Ark Plumbing Supply has a model you like for \$449. Jensen Warehouse, a competitor, sells the identical model for \$599. Jensen offers free delivery, installation, and removal of your old heater. Ark Plumbing Supply charges \$50 for delivery, \$100 for installation, and \$25 to remove the old heater. Which business offers the lower total purchase price?

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Name \_\_\_\_\_

4. Refer to the prices listed in the previous problem. You need a water heater and can install it yourself. You need delivery, but there is no old water heater to remove. Based on this information, at which business will you get the lower total price?

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5. Ever-Brite Sponge Company manufactures various size sponges for household and janitorial use. The company sells its products to various retailers, as well as directly to the public through its website. Total sales last year were \$800,000, of which \$600,000 was to retailers.

- a. How much did Ever-Brite sell directly to the public?

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- b. Calculate the percentage of Ever-Brite's sales to the public using the following formula:

$$\frac{\text{sales to the public}}{\text{total sales}} \times 100 = \text{percentage of sales to the public}$$

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Name \_\_\_\_\_

## Part 4: Communication Skills

### Reading

Good reading skills are important in business. Read the following passage and focus on the content. Then, answer the questions that follow in the space provided.

#### Diversity

Today, more than ever, companies benefit from employees with different backgrounds. Employees may differ in many ways: personality styles, education, age, gender, socioeconomic background, cultural background, race, religion, family situation, physical abilities, and lifestyles.

A diverse workforce is a reflection of a changing world and marketplace. The workforce of today and tomorrow is much more diverse than in the past. Bringing people from many backgrounds together in the workplace provides a greater diversity of talents, skills, ideas, and viewpoints. We welcome this diversity, as organizations that have a diverse workforce are most likely to thrive well into the future. However, a diverse workforce requires employees to work with coworkers of varied backgrounds. The Company must develop ways to maximize the potential of each employee.

A diverse workforce benefits the Company by creating a workplace where all employees have opportunities and feel good about their jobs. When employees' diversity is seen as an asset and employees are made to feel good about who they are and what they are capable of accomplishing, the Company can attract and retain good employees, maximize productivity, enhance the reputation of the Company, and improve decision making by having more viewpoints and choices.

A diverse workforce benefits employees because people are the happiest and most productive when they can be themselves. In a workplace that appreciates differences, people are valued as individuals and are not defined by stereotypes about their groups; employees are encouraged to discuss issues and resolve conflicts; employees acquire new skills through coaching, education, and shared knowledge among coworkers; and employees' needs and input are valued in developing job structures, work processes, conditions, and benefits.

The success of the Company is dependent upon the contributions of all its workers. In order to promote a fair and diverse workplace, employees must be respectful and open to others, especially when dealing with issues and people who may not always agree with their personal beliefs and values.

It is important to overcome bias and stereotypes. Every individual is unique and does not represent or speak for his or her group. Employees must talk to each other, hear each other, and work together for the success of the Company. Employees must recognize that they are interdependent and all must work together to accomplish goals.



Name \_\_\_\_\_

## Reading Questions

1. What is the main point of this passage?

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2. How does diversity benefit employees?

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3. Which paragraph of the passage describes how diversity benefits employers?

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4. Upon what is the success of a company dependent?

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