

## **ANSWER KEY – ADM 1300 MIDTERM EXAM for FALL 2014**

### **Short Essay Questions (60 marks)**

- 1) What is a sole proprietorship? Outline and describe three advantages and three disadvantages of the sole proprietorship form of business ownership.  
(10 marks)

**Sole proprietorship (4 marks – can be in student’s own words, but should mention items below)**

- **When management and ownership of a business are one and the same**
- **Typically employ less than 50 people**
- **The oldest and simplest form of legal ownership in Canada**
- **Found mostly in repair shops, small retail stores, and service providers**

**Advantages: (only want 3 / mark only 3)**

- **easy to form/dissolve – can simply register business locally or provincially with small cost**
- **government preferential treatment – grants available, governments encourage growth of entrepreneurship and innovation**
- **sole claim on all profits – the money you make is yours**
- **personal incentive/satisfaction – you want to grow the business or see it prosper**
- **pays only personal income tax = federal and provincial...more income, more tax**
- **secrecy – no need to divulge what makes you successful (through audited financial statements)**

**Disadvantages: (only want 3/ mark only 3)**

- **unlimited liability – you are responsible for all debt obligations of the business**
- **lack of continuity (uncertainty of duration) – what happens if you no longer want to run the business?**
- **time commitment – there is often a huge time commitment to make it successful. Often every day.**
- **difficulty in raising monies – this rests with the individual net worth**
- **management limitations – the owner cannot be an expert in everything making it difficult to ensure success of operations.**

**\*\*\* Mark allocation: 4 marks for definition of Sole Proprietorship, .5 marks for each advantage or disadvantage mentioned and .5 marks for each description\*\*\***

2) Outline and describe five arguments in favour of social responsibility. (10 marks)

\*\*\***Mark allocation:** Each argument is worth two marks. Simply stating what is below is not enough, students must describe as well.\*\*\*

- In the orgs. long run best interest
- Improves the public image
- Improves quality of life
- In shareholders best interest
- Better able to solve problems
- Problems can become profitable

3) Current events / CEO in Residence: (10 marks)

**(Can be in their own words)**

- a) Briefly describe two of the ownership structures that Mark Farrell (CEO in Residence) has been a part of during his business career. (5 marks)

He has been involved with a number of organizations:

- Franchisee (College Pro Painters, Sport and Social Clubs of Canada)
- Public Multi-national (Eli Lilly, GD Searle, and Thomson Corporation)
- Licensed Distributer (Mars Food)
- Private Corporation (Kids Futures)
- Public Corporation (Futura Loyalty Group)
- Partnership (Inspire Developments)

**(2.5 marks for each type of ownership mentioned and briefly described – either name the company or giving of advantages/ disadvantages)**

- b) Why was Bernard Madoff sentenced to 150 years in prison? (2 marks)

- **Orchestrated a Ponzi scheme and defrauded investors (2 marks)**

- c) Name two changes that Apple Inc. has recently made to its product portfolio. (3 marks)

- **iPhone 6, Operating system, iwatch, payment system, etc. (1.5 mark for each reason)**

4) Define each of the following: (16 marks)

Mark Allocation: 2 marks for each definition

a) dividend

***in a corporation, when a percentage of the after tax profits are paid out to shareholders. The other option to dividends is to reinvest profits into the company.***

b) ethics

**Ethics deals with an individual's decision that society evaluates as right or wrong (moral beliefs about what is right or wrong)**

c) limited liability

***in a partnership or corporation form of business ownership, where the individual is only responsible for the amount (or percentage) of money invested into the company.***

d) division of labour

**specialization of the production process by separating the work process into a number of tasks where each task is performed by an particular individual**

e) empowerment

**the practice of sharing rewards and power to employees (lower level employees) so that they can take initiative and make decisions in an organization.**

f) franchisee

**individual who purchase the right to sell product or service of a franchisor and who is in business for himself/ herself but not by himself/ herself**

g) conflict of interest

**person must choose to advance own interest or those of others**

h) organizational culture

**a system of shared meaning that determines how employees act and that distinguishes one organization from another.**

5) Outline and describe the economic and sociocultural forces that exist in an organization's external environment (14 marks)

**ECONOMIC (\*\*7 marks, must mention and describe 3 to get full marks simply stating what is below is not enough, students must describe as well\*\*)**

- Productivity (Output/ Input)
- Recession / Recovery/ Prosperity – describe economic cycle
- Gross Domestic Product – total of all goods and services produced within a nation
- Consumer Price Index – monthly average change in prices of goods/services
- Interest rate: price of borrowing money
- Unemployment rate: % of people not working but who are looking for work
- Dollar strength: low dollar...good or bad? – describe import effects and export effects

**SOCIOCULTURAL: (\*\*7 marks, must mention and describe 3 to get full marks...simply stating what is below is not enough, students must describe as well\*\*)**

- Demographics: descriptive elements of people in society (Baby boomers at peak)
- More generations are mixing (3 generations of workers in the workforce right now)
- Increasing urbanization (population centres)
- Education – increased education
- Societal values