Entrepreneurship ©2013

Chapter 16: Risk Management—Checkpoint Solutions

Checkpoint 16.1

1. What is a business risk?

Answer: A business risk is the possibility that an unfavorable situation could happen to you or your business.

2. What is risk management?

Answer: Risk management is the process of identifying risks that could happen in your business.

3. What are the four types of risks an entrepreneur should anticipate?

Answer: The four types of risks an entrepreneur should anticipate are Natural risks, Human risks, Economic and Political risks, and Market risks.

4. What types of risks are posed by employees and customers?

Answer: Employees and customers pose a human risk, which includes identity theft, fraud, or accidental injury.

5. Explain product obsolescence.

Answer: Product obsolescence is when a product or technology goes out of style and the business has the risk of customers not wanting to buy the product.

Checkpoint 16.2

1. List five things business owners can do to reduce the risk of loss resulting from external theft.

Answer: Five things business owners can do to reduce the risk of loss resulting from external theft are 1. establish cash-handling policies; 2. take structural security measures; 3. conduct surveillance; 4. use theft deterrents; and 5. create security policies.

2. What is OSHA?

Answer: OSHA is the Occupational Safety and Health Administration. It enforces safety and health regulations in the workplace.

3. What is the most common way to transfer risk?

Answer: insurance

4. What type of low-cost policy provides property and liability coverage for small business owners?

Answer: business owner's policy insurance

5. Explain under what circumstances a surety bond is required.

Answer: Surety bonds are required when a receiving business needs protection against the risk of losses resulting from the other party's failure to meet its obligations.

Checkpoint 16.3

1. What is credit?

Answer: Credit is an agreement or contract to receive goods or services before actually paying for them.

2. Installment loans are taken out to finance what types of purchases?

Answer: Installment loans are taken out to finance large, "big ticket" items such as washing machines and cars.

3. Why should the due dates for trade credit repayment be carefully monitored?

Answer: Due dates for trade credit repayment be carefully monitored to maintain adequate cash flow and avoid accruing interest charges.

4. Why would a business risk extending credit?

Answer: A business extends credit to get the reward of steady business and loyal customers.

5. List five ways a business can reduce credit risk?

Answer: Five ways a business can reduce credit risk are 1. create a credit policy; 2. require a credit application; 3. obtain a credit report; 4. evaluate the information; and 5. manage accounts receivable.