



Innovation Test 1

1 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The period in which technology can change and in which firms can introduce entirely new products is the

- A) short run
- B) very short run
- C) long run
- D) very long run

2 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Technological progress is a three-step process of

- A) creation, pricing, and marketing
- B) invention, innovation, and diffusion
- C) manufacturing, venturing, and promotion
- D) start-ups, imitation, and creative destruction

3 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The first discovery of a product or process through the use of imagination, ingenious thinking, and experimentation and the first proof that it will work is

- A) process innovation
- B) product innovation
- C) creative destruction
- D) invention

4 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

An exclusive right to sell any new and useful process, machine, or product for a set number of years is called a

- A) trademark
- B) copyright
- C) patent
- D) brand

5 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Innovation is a major factor in competition because it can

- A) be patented to protect the investment of the developers
- B) enable firms to make competitors' products obsolete
- C) guarantee the monopoly position of innovative firms
- D) reduce research and development costs for firms

6 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

What idea is best illustrated by the example of McDonald's successfully introducing the fast-food hamburger and then that idea being adopted by other firms such as Burger King and Wendy's?

- A) start-ups
- B) diffusion
- C) invention



- D) fast-second strategy

7 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

About what percentage of GDP in the United States is spent on research and development?

- A) 2.9%
- B) 7.6%
- C) 10.6%
- D) 21.2%

8 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The modern view of technological advance is that it is

- A) rooted in the independent advancement of science
- B) best stimulated through government R&D spending
- C) a result of intense rivalry among individuals and firms
- D) a random outside force to which the economy adjusts

9 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The major difference between entrepreneurs and other innovators is

- A) innovators work in teams, but entrepreneurs do not
- B) innovators manage start-ups, but entrepreneurs do not
- C) entrepreneurs bear personal financial risk, but innovators do not
- D) entrepreneurs invent new products and processes, but innovators do not

10 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Past successes in developing products often mean that entrepreneurs and innovative firms

- A) have access to more private resources for further innovation
- B) have access to less private resources for further innovation
- C) have access to more public support for further innovation
- D) experience no change in the availability of private or public resources for further

innovation

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11 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Answer this Question based on the following table showing the expected rate of return, R&D spending, and interest-rate cost of funds for a hypothetical firm.

Expected rate of return (%)	R&D (millions of \$)	Interest-rate cost of funds (%)
15	20	9
13	40	9
11	60	9
9	80	9
7	100	9

In a supply and demand graph, the interest-rate cost-of- funds curve would be a(n)

- A) vertical line at 9%
- B) horizontal line at 9%
- C) upsloping line over the 15 to 7% range



D) downsloping line over the 15 to 7% range
6-7

12 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Answer this Question based on the following table showing the expected rate of return, R&D spending, and interest-rate cost of funds for a hypothetical firm.

Expected rate of return (%)	R&D (millions of \$)	Interest-rate cost of funds (%)
15	20	9
13	40	9
11	60	9
9	80	9
7	100	9

The optimal amount of R&D would be

- A) \$40 million
- B) \$60 million
- C) \$80 million
- D) \$100 million

7-8

13 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Answer this Question based on the following table showing the expected rate of return, R&D spending, and interest-rate cost of funds for a hypothetical firm.

Expected rate of return (%)	R&D (millions of \$)	Interest-rate cost of funds (%)
15	20	9
13	40	9
11	60	9
9	80	9
7	100	9

If the interest-rate cost-of-funds curve rose to 13%, the optimal amount of R&D spending would be

- A) \$40 million
- B) \$60 million
- C) \$80 million
- D) \$100 million

7-8

14 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Product innovation tends to increase the profits of firms primarily by

- A) decreasing the firm's average costs
- B) increasing the firm's total revenue
- C) decreasing marginal utility per dollar spent
- D) increasing the success of R&D spending

9

15 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Consumers will buy a new product only if

- A) it has a lower marginal utility per dollar spent than another product
- B) there is a substantial budget for promotion and marketing



- C) it can be sold at a lower price than that for a competing product
- D) it increases the total utility they obtain from their limited income

9

16 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Process innovation produces a(n)

- A) downward shift in the total-product curve and an upward shift in the average-cost curve
- B) upward shift in the total-product curve and a downward shift in the average-cost curve
- C) upward shift in both the total-product and average-cost curves
- D) downward shift in both the total-product and average-cost curves

10–11

17 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Some dominant firms in an industry use a fast-second strategy that involves

- A) developing two products to compete with rivals
- B) cutting the development time for the introduction of a new product
- C) moving quickly to buy the second largest firm in the industry to gain larger market share
- D) letting smaller firms initiate new products and then quickly imitating the success

11

18 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

One legal protection for taking the lead in innovation is

- A) venture capital
- B) trademarks
- C) trade secrets
- D) mergers

11

19 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

One major advantage of being the first to develop a product is the

- A) use of the fast-second strategy
- B) increase in retained earnings
- C) lower interest-rate costs of funds
- D) potential for profitable buyouts

12–13

20 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Which firm has a strong incentive for product development and differentiation?

- A) a monopolistically competitive firm
- B) a purely competitive firm
- C) an oligopolistic firm
- D) a pure monopoly

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21 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

In which market structure is there the least incentive to engage in R&D?

- A) a monopolistically competitive firm
- B) a purely competitive firm



- C) an oligopolistic firm
- D) a pure monopoly

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22 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The inverted-U theory of R&D suggests that R&D effort is at best weak in

- A) low-concentration industries only
- B) high-concentration industries only
- C) low- and high-concentration industries
- D) low- to middle-concentration industries

14–15

23 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

The optimal market structure for technological advance seems to be an industry in which there

- A) are many purely competitive firms
- B) are monopolists closely regulated by government
- C) is a mix of large oligopolistic firms with several small and highly innovative firms
- D) is a mix of monopolistically competitive firms and a few large monopolists in

industries with high capital costs

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24 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Technological advance as embodied in process innovation typically

- A) decreases allocative efficiency
- B) increases allocative efficiency
- C) decreases productive efficiency
- D) increases productive efficiency

15–17

25 CMAT NTA INNOVATION & ENTREPRENEURS QUESTION

Which statement would best describe the concept of creative destruction as used by economist Joseph Schumpeter?

- A) Innovation would lead to monopoly power and thus destroy the economy.
- B) The creation of new products and production methods would destroy the market for existing products.
- C) Invention would create new products, but diffusion would destroy many potentially good ideas.
- D) Firms are being creative with learning by doing, but this spirit is destroyed by the inability of firms to finance R&D expenditures.

CMAT NTA Innovation & Entrepreneurs Question answers:

D B D C B

BACCA

BCABD

BDBDA

DCCDB

Innovation Test 2

Question 1

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Innovation is defined as:

- a) the commercialization of a new product or process.
- b) the invention of a new product or process.
- c) a new product or process idea.
- d) the implementation of a new production method.

Question 2

Process innovation refers to:

- a) the development of a new service.
- b) the development of a new product.
- c) the implementation of a new or improved production method.
- d) the development of new products or services.

Question 3

Innovation can help to provide a temporary competitive advantage when:

- a) barriers to entry are high.
- b) barriers to imitation are low and intellectual property rights are difficult to enforce.
- c) there are few other competitors.
- d) barriers to entry are low.

Question 4

Following establishment of a dominant design in the product life cycle, what would you expect to happen?

- a) Emphasis on product innovation rather than process innovation.
- b) Emphasis on process innovation rather than product innovation.
- c) Competition to increase as new firms enter the industry.
- d) Competition to decrease as more firms exit than enter the industry.

Question 5

Established firms relative to new firms are better at:

- a) all types of innovation.
- b) innovation which is competence-enhancing.
- c) innovation which is competence-destroying.
- d) Innovation which is disruptive.

Question 6

In which markets are network effects likely?

- a) Markets subject to increasing returns
- b) 'Tippy' markets
- c) Hi-tech product markets
- d) All of the above

Question 7

Which of the following are valuable in a standards war?

- a) Competitive advantage
- b) Late mover advantage
- c) Early mover advantage
- d) Technological advantage

Question 8

The fundamental challenge of knowledge transfer in multinational firms is:

- a) transferring explicit knowledge across borders.
- b) transferring tacit knowledge across borders.
- c) creating tacit knowledge in overseas subsidiaries.
- d) transferring tacit and explicit knowledge across borders.

Question 9

What potential advantages can be gained from involving overseas subsidiaries in R&D activities?

- a) Local subsidiaries offer financial advantages such as lower land and labour costs.

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- b) Local subsidiaries offer access to local companies.
- c) Local subsidiaries offer access to technical knowledge and skills.
- d) Local subsidiaries offer financial advantages as well as access to local markets, technical knowledge and skills.

Question 10

Outsourcing of innovation globally is more likely where:

- a) Innovations are autonomous
- b) Innovations are systemic
- c) Innovations are systemic or autonomous
- d) Innovations are made by service sector firms

Innovation is defined as:

Correct answer:

- a) the commercialization of a new product or process.

Feedback:

Innovation is defined as the commercialization of a new product or process.

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Question 2

Process innovation refers to:

Correct answer:

- c) the implementation of a new or improved production method.

Feedback:

Process innovation refers to the implementation of a new or improved production method.

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Question 3

Innovation can help to provide a temporary competitive advantage when:

Correct answer:

- b) barriers to imitation are low and intellectual property rights are difficult to enforce.

Feedback:

Innovation can help to provide a temporary competitive advantage when barriers to imitation are low and intellectual property rights are difficult to enforce.

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Question 4

Following establishment of a dominant design in the product life cycle, what would you expect to happen?

Correct answer:

b) Emphasis on process innovation rather than product innovation.

Feedback:

Following establishment of a dominant design in the product life cycle there is expected to be emphasis on process innovation rather than product.

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Question 5

Established firms relative to new firms are better at:

Correct answer:

b) innovation which is competence-enhancing.

Feedback:

Established firms relative to new firms are better at innovation which is competence-enhancing.

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Question 6

In which markets are network effects likely?

Correct answer:

d) All of the above

Feedback:

Network effects are likely in 'tippy' markets, hi-tech product markets, and markets subject to increasing returns.

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Question 7

Which of the following are valuable in a standards war?



Correct answer:

c) Early mover advantage

Feedback:

Early mover is an advantage in a standards war.

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Question 8

The fundamental challenge of knowledge transfer in multinational firms is:

Correct answer:

b) transferring tacit knowledge across borders.

Feedback:

The fundamental challenge of knowledge transfer in multinational firms is transferring tacit knowledge across borders.

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Question 9

What potential advantages can be gained from involving overseas subsidiaries in R&D activities?

Correct answer:

d) Local subsidiaries offer financial advantages as well as access to local markets, technical knowledge and skills.

Feedback:

Advantages of involving overseas subsidiaries in R&D activities, include: local subsidiaries offer financial advantages as well as access to local markets, and technical knowledge and skills.

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Question 10

Outsourcing of innovation globally is more likely where:

Correct answer:

a) Innovations are autonomous

Feedback:

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Outsourcing of innovation globally is more likely where innovations are autonomous.
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