Legal and Regulatory Environment of Business 18th edition Pagnattar Test Bank

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The Legal and Regulatory Environment of Business, 18e **(Pagnattaro)**
Chapter 2 The Role of Ethics in Decision Making

1) Federal sentencing guidelines reduce criminal fines for legal violations in companies that have taken specific steps to self-police ethical/legal conduct.

Answer: TRUE
Explanation: Federal sentencing guidelines reduce criminal fines for legal violations in companies that have taken specific steps to self-police ethical/legal conduct. Federal law encourages self-regulation.
Difficulty: 1 Easy
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

2) In society, the sharing of morals promotes social cooperation and is a means of social control.

Answer: TRUE
Explanation: In society at large, the sharing of moral values promotes social cooperation and is a significant means of social control. Shared moral values lead one to accept and trust others.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

3) With greater diversity comes greater concern over ethical values.

Answer: TRUE
Explanation: Diversity fosters concern over values, and as America becomes increasingly diverse, changes in traditional norms create challenges in establishing shared ethical values.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

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4) Increasing economic interdependence prevents executives and managers at a firm from manipulating corporate actions for their own benefit.

Answer: FALSE
Explanation: A serious ethical problem arises from economic interdependence and the modern corporation, which is the structure of most large businesses in this country. The problem is that the corporate leaders are not the real owners of corporations. The stockholders are, and although corporate executives and managers may own some stock, they seldom own significant percentages of very large companies. The ethical problem that can arise is that the executives and managers who control what the stockholders own are sometimes able to manipulate corporate actions for their own benefit, actions that have unacceptable risks to the owners and others. Increasing economic interdependence promotes concerns about business ethics.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

5) Increasing coverage of business decisions by the news media and the Internet has made it harder for large organizations to hide their questionable behavior.

Answer: TRUE
Explanation: The news media and the Internet have made it harder for large organizations to hide their questionable behavior. Extensive media and Internet coverage of business decisions and their effect on society makes us more aware than ever of failures of business ethics.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

6) According to Adam Smith, leading a good life means being solely concerned about the fortunes of oneself.

Answer: FALSE
Explanation: The end result of ethical examination is what philosophers call the good. The concept of the good is central to the study of morality. The good may be defined as those moral goals and objectives one chooses to pursue. Thus, leading a good life means more than having the good life. It means more than material possessions and luxury. It means pursuing intangibles, being concerned, as Adam Smith put it, about the fortunes of others.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

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7) Adam Smith, the author of *The Wealth of Nations*, denied the existence of any moral element in human nature that goes beyond self-interest.

Answer: FALSE
Explanation: Adam Smith wrote, "However selfish man believes himself to be, there is no doubt that there are some elements in his nature which lead him to concern himself about the fortune of others, in such a way that their happiness is necessary for him, although he obtains nothing from it except the pleasure of seeing it." With this statement, the author of *The Wealth of Nations*, perhaps the most famous book on economic theory ever written, recognized a moral element in human nature that goes beyond self-interest.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

8) To have success in international operations, businesses must ignore dissimilarities in moral values.

Answer: FALSE
Explanation: To succeed in international operations, businesses must be sensitive to dissimilarities in moral values. Internationally, businesses often face problems when they do business with nations with different moral values.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

9) Ultimately, the commitment to ethical values is superior to mere observance of the law in ensuring responsible business behavior.

Answer: TRUE
Explanation: Ultimately, the commitment to ethical values is superior to mere observance of the law in ensuring responsible business behavior. Legal rules can never be specific enough to regulate all business actions that may have socially undesirable or even dangerous consequences.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

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10) Consequentialism is primarily a duty-based view of ethics.

Answer: FALSE
Explanation: Formalism is primarily a duty-based view of ethics. To be ethical, one has a duty, or moral obligation, not to lie. Consequentialism concerns itself with the moral consequences of the actions rather than morality of the actions themselves.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

11) According to John Rawls's social contract theory, people should free themselves of self-knowledge in order to keep from being self-interested and to create an ethical society.

Answer: TRUE
Explanation: Rawls suggests a simple first step in determining the ethical values on which a just society can be built. People should assume that they are unaware of their age, gender, race, intelligence, strength, wealth, or social status. Being free from self-knowledge is vital because it keeps people from being self-interested in the ethical values they consider.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

12) Laws regarding traffic violations predominantly address ethical concerns.

Answer: FALSE
Explanation: Unlike ethical systems, the legal system is an institution of the state. The state enforces legal rules through civil and criminal sanctions, like monetary damage awards, fines, and imprisonment. Many ethical values (regarding the treatment of animals, for example) are not enforced by the state, and many laws (regarding traffic violations, for example) do not address ethical concerns.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

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13) According to formalist thinker Immanuel Kant, to have good intent, one has to make an exception for one's own behavior.

Answer: FALSE
Explanation: For the formalist thinker Immanuel Kant (1724–1804), to be ethical, it is required that one acts with a good intent. To have a good intent, one has to act in ways that are ethically consistent. This emphasis on consistency Kant called the categorical imperative.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

14) John Rawls' social contract theory relies on the concept that duty, not an agreement, constructs a just society.

Answer: FALSE
Explanation: The social contract theory is based not on duty but on contract (agreement). The social contract theory of Harvard philosopher John Rawls furnishes an important recent example of how formalism has influenced thinking about business and personal ethics.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

15) According to the social contract theory, though there may be social and economic inequalities, these inequalities must be based on what a person does, not on who a person is.

Answer: TRUE
Explanation: According to the social contract theory, though there may be social and economic inequalities, these inequalities must be based on what a person does, not on who a person is, and everyone must have an equal opportunity for achievement. Because there are natural differences of intelligence and strength and persistent social differences of wealth, class, and status, defining "equal opportunity" is crucial to this ethical principle.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
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16) Consequentialism concerns itself with the morality of the actions themselves.

Answer: FALSE
Explanation: Consequentialism concerns itself with the moral consequences of actions rather than with the morality of the actions themselves. If actions cause overall harm to society, they are unethical. The dominant form of consequentialism is utilitarianism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

17) According to utilitarianism, actions are judged by their morality and not by their usefulness.

Answer: FALSE
Explanation: Utilitarianism judges actions by their usefulness, by whether they serve to increase the common good. For utilitarians, the end justifies the means.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

18) Business ethics reflect elements of both formalism and consequentialism, but tend to focus more heavily on the former.

Answer: FALSE
Explanation: Although business ethics reflect elements of both formalism and consequentialism, they focus more heavily on the latter. Business leaders feel a need to justify what they do in terms of whether it produces dividends for their shareholders. Their primary goal or end is to produce a profit. This orientation reflects consequentialism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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19) The Protestant ethic was a boon to capitalism, but the religious basis of the Protestant ethic was eroded by rising wealth and the encouragement of mass consumption.

Answer: TRUE
Explanation: The Protestant ethic was a boon to capitalism. The quest for economic independence fueled commercial growth, which fueled industrial growth, which created our modern consumer society. Along the way, however, the religious basis of the Protestant ethic was eroded by rising wealth and the encouragement of mass consumption.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

20) A formalist is most likely to conclude that a business's secret monitoring of employees is ethical if the monitoring reveals a significant number of crimes or malfeasance, providing a net good for the business.

Answer: FALSE
Explanation: Formalists might say that secret monitoring treats employees only as a means to the end of increasing organizational efficiency and does not respect their self-worth as individuals. The monitoring also does not respect their dignity and their privacy. Formalists might conclude that secret monitoring is unethical. Explaining the problem to the employees and asking for their consent to monitor would be a more ethical action to take.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.; 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

21) When faced with a dilemma, a consequentialist would rely on absolutism.

Answer: FALSE
Explanation: When faced with a dilemma, a consequentialist would rely on relativism, observe the morality of actions, and then test the morality to arrive at a resolution. However, a formalist would rely on absolutism, observe the morality of actions, and then test the morality to arrive at a resolution.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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22) Legal regulation is not a source of value for business ethics.

Answer: FALSE
Explanation: Legal regulation is one, of at least four, sources of value for business ethics.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

23) The way to understand the ethical-legal relationship is to realize that in a society ethical values frequently become law and that legal regulation can reflect the society's ethical values.

Answer: TRUE
Explanation: The way to understand the ethical-legal relationship is to realize that in the society ethical values frequently become law and that legal regulation can reflect society's ethical values. For example, society's ethical commitment to equal opportunity became law in the Civil Rights Act of 1964, which prohibits employment discrimination based on "race, sex, color, religion, and national origin."
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

24) Courts have examined due care in negligence cases in terms of a balancing test.

Answer: TRUE
Explanation: Due care promotes the common good. In negligence law, failure to exercise due (or reasonable) care is the principal element that triggers liability against a defendant. Courts have examined due care in negligence cases in terms of a balancing test. The likelihood that the defendant's conduct will cause harmful consequences, taken with the seriousness of the harmful consequences, is balanced against the effort required to avoid the harmful consequences. The balancing test is central to the concept of due care.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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25) The legal requirement of honoring confidentiality contains only formalist ethical values.

Answer: FALSE
Explanation: The legal requirement of honoring confidentiality appears in agency law generally and in the professional-client relationship in particular. The legal requirement of honoring confidentiality contains both formalist and consequentialist ethical values.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

26) If a judge or regulator were to make a ruling or regulation concerning a company in which he or she is a stockholder, they would be creating a conflict of interest.

Answer: TRUE
Explanation: Conflicts of interest arise in public service. For instance, it is a conflict of interest for a judge or regulator to make a decision involving a company in which he or she is a stockholder. In this instance, the conflict of interest does not involve "serving two masters."
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

27) Creation of codes of ethics is far more important than implementation and enforcement of those codes.

Answer: FALSE
Explanation: Although many businesses have codes of ethics, effective implementation and enforcement of those codes is far more important than the creation of a code. Whether companies pursue ethical self-regulation with enthusiasm and commitment or the codes are mere window dressing to satisfy the government and the general public is an important issue in determining the value of these codes.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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28) Due care usually promotes individual rights and self-worth.

Answer: FALSE
Explanation: Due care derives from society's expectations about how fair and reasonable actions are. Due care promotes the common good.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

29) In negligence law, failure to exercise due (or reasonable) care is the principal element that triggers liability against a defendant.

Answer: TRUE
Explanation: Due care derives from society's expectations about how fair and reasonable actions are. Due care promotes the common good. In negligence law, failure to exercise due (or reasonable) care is the principal element that triggers liability against a defendant.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking

30) If an individual conforms to the ethical system of consequentialism, he or she would view lying itself as unethical.

Answer: FALSE
Explanation: An individual who conforms to consequentialism will not view lying itself as unethical because consequentialism concerns itself with the moral consequences of actions rather than with the morality of the actions themselves. For a consequentialist, lying itself is not unethical. It is the consequences, or end results, of lying that must be evaluated for their ethical implications.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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31) To judge the utility of a particular action, it is necessary to consider alternative courses of action.

Answer: TRUE
Explanation: For utilitarians, the end justifies the means. But to judge the utility of a particular action, it is necessary to consider alternative courses of action. Only after one considers all reasonable courses of action can one know whether a particular action has the greatest utility.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

32) The question, "will my actions cause harm to others?" illustrates that individuals are the ultimate source of ethical values for business decision-making and promotion of the common good.

Answer: TRUE
Explanation: An individual is the ultimate source of values for business decision-making and the common good. As such, individuals can ask themselves questions that will help them explore his/her own ethical values before making business decisions. One of these questions is "how will the individual's actions harm others?" By asking this question, the individual will examine if the decision will promote the common good.
Difficulty: 2 Medium
Topic: Sources of Values for Business Ethics
Learning Objective: 02-03 To generate an individual framework for ethical values in business.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

33) Ambrose Bierce posited that individuals in large groups, such as corporations, feel more responsibility for what happens in the group than they do for what happens in their individual lives.

Answer: FALSE
Explanation: The social critic Ambrose Bierce once remarked that the corporation is "an ingenious device for obtaining individual profit without individual responsibility." He was referring to the fact that individuals in large groups such as the corporation feel less responsibility for what happens in the group than they do for what happens in their individual lives.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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34) Coupled with an overemphasis on profit, the group effect increases the difficulty of achieving an ethical business corporation.

Answer: TRUE
Explanation: That individuals in groups may feel a diminished sense of responsibility for decisions made and actions taken invites ethical compromise. Coupled with an overemphasis on profit, the group effect increases the difficulty of achieving an ethical business corporation.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

35) A Spanish publication made insights into business ethics, one of which is that profits and business contradict one another.

Answer: FALSE
Explanation: The Spanish publication, *Boletín Círculo*, made observations about business ethics. One of these observations is that profits and business ethics are not contradictory. Some of the most profitable businesses have also historically been the most ethical.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

36) One of the obstacles to ethical corporate behavior is the likelihood that individuals in a group feel a diminished sense of responsibility for actions taken.

Answer: TRUE
Explanation: The very nature of a corporation can provide obstacles to ethical behavior. Because a corporation is a large group of individuals, its members may feel a diminished sense of responsibility for the actions of the corporation. This increases the likelihood of unethical behavior.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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37) Stakeholder theory suggests that an ethical corporation utilizes its managers to foster risks to stakeholders which, if explained, would be clearly acceptable.

Answer: FALSE
Explanation: Stakeholder theory suggests that an ethical corporation utilizes its managers to avoid risks to stakeholders which, if explained, would be clearly unacceptable. It works actively and cooperatively to reduce the risk of corporate harm to all stakeholders and to compensate them when harm occurs.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

38) For businesses, merely to observe the law is sufficient as legal regulations are flexible and adequately informed to be the only social guide for business decision making.

Answer: FALSE
Explanation: Business plays a vital role in serving society, and one cannot isolate the effect of important business decisions from their social consequences. For businesses merely to observe the law is not sufficiently responsible. Legal regulation lacks flexibility and is inadequately informed to be the only social guide for business decision making.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

39) That individuals will do unethical things as part of a mob, which they would never do alone, is widely recognized, and the same pattern can be observed in corporate behavior.

Answer: TRUE
Explanation: That individuals will do unethical things as part of a mob, which they would never do alone is widely recognized, and the same pattern can be observed in corporate behavior. That individuals in groups may feel a diminished sense of responsibility for decisions made and actions taken invites ethical compromise.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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40) In a modern corporation, the very nature of corporate structure gives managers the opportunity to abuse and misappropriate corporate resources owned ultimately by shareholders.

Answer: TRUE
Explanation: Sometimes, managers embezzle corporate money or abuse expense accounts. At other times, they misrepresent the financial condition of the corporation to exercise stock options, obtain huge bonuses, or prop up loans they have secured with company stock. Because the very nature of corporate structure gives managers the opportunity to abuse and misappropriate corporate resources owned ultimately by shareholders, ethical business practice is made more important yet more difficult.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

41) For ethical corporate values to make their most significant effect on decision making, corporate employees must be willing to talk with each other about ethical issues.

Answer: TRUE
Explanation: For ethical corporate values to make their most significant effect on decision making, corporate employees must be willing to talk with each other about ethical issues. Openness promotes trust, and without trust even the best-drafted code of ethics will likely fall short of achieving an ethical business corporation.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

42) According to sociologist Robert Jackall, the bureaucratic system of career advancement is not important to a corporation's top management in encouraging business ethics.

Answer: FALSE
Explanation: According to sociologist, Robert Jackall, the bureaucratic system of career advancement is important to a corporation's top management in encouraging business ethics. Career advancement of a lower level employee is tied to the advancement of his/her superior. This creates an interlocking system of loyalties which causes the values of top management to filter down to lower level employees.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Remember
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43) This legislation was adopted in 2002 and established higher standards for corporate responsibility and governance:
A) The Environmental Protection Act
B) The Wealth of Nations
C) The Civil Rights Act
D) The Sarbanes Oxley Act
E) The Federal Criminal Sentencing Guidelines

Answer: D
Explanation: The Sarbanes Oxley Act was passed in 2002 and established higher standards for corporate responsibility and governance. It also created a new operating environment for businesses.
Difficulty: 1 Easy
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

44) _____ wrote the *Wealth of Nations*, a famous book on economic theory.
A) Karl Marx
B) Adam Smith
C) Socrates
D) Immanuel Kant
E) John Adams

Answer: B
Explanation: Adam Smith wrote *The Wealth of Nations*, perhaps the most famous book on economic theory ever written. In 1759 Adam Smith wrote, "However selfish man believes himself to be, there is no doubt that there are some elements in his nature which lead him to concern himself about the fortune of others, in such a way that their happiness is necessary for him, although he obtains nothing from it except the pleasure of seeing it."
Difficulty: 1 Easy
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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45) _____ is a systematic statement of right and wrong together with a philosophical system that both justifies and necessitates rules of conduct:
A) Ethics
B) Morality
C) Formalism
D) Utilitarianism
E) Consequentialism

Answer: A
Explanation: Ethics is defined as systematic statement of right and wrong together with a philosophical system that both justifies and necessitates rules of conduct.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

46) Which of the following statements is true of the social contract theory?
A) It lays minimal emphasis on individual rights and self-worth.
B) It is based on duty.
C) It has its origins in formalism.
D) It has given rise to utilitarianism.
E) It is based on agreements between people.

Answer: C
Explanation: Because of its emphasis on individual rights and self-worth, social contract theory has its origin in formalism. It provides a powerful process for ethical business decision making. Social contract theory is especially valuable in international business.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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47) Which of the following statements is true of formalism?
A) It is primarily concerned with the consequences of a person's action rather than the action itself.
B) It lays more emphasis on end results and their evaluation.
C) It focuses more on common good rather than on individual rights.
D) It is an approach to ethics that affirms an absolute morality.
E) Its dominant form is utilitarianism.

Answer: C
Explanation: Formalism is an approach to ethics that affirms an absolute morality. A particular act is in itself right or wrong, always and in every situation. For example, lying is wrong. There are no justifications for it, and its wrongness does not depend on the situation in which a lie is told.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

48) Donald follows a formalist viewpoint. Which of the following is most likely to be his belief about stealing?
A) He is likely to support stealing if it is done for personal gain.
B) He is likely to condemn all forms of stealing.
C) He is likely to support stealing if it is done to help the common good.
D) He is likely to disapprove of stealing only in instances that hurt people.
E) He is likely to support stealing that is harmless.

Answer: B
Explanation: Donald is likely to condemn all forms of stealing. Formalism is an approach to ethics that affirms an absolute morality. A particular act is in itself right or wrong, always and in every situation. For example, stealing is wrong. There are no justifications for it, and its wrongness does not depend on the situation in which it is done.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

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49) Ethical formalists maintain that _____.
A) harm to an individual is acceptable as long as it serves the greater good
B) values are situational and change based on circumstance
C) individuals have rights that should not be infringed even at the expense of society
D) the good of the many always supersedes the good of the few
E) the focus should be more on the consequence than on the act of an individual

Answer: C
Explanation: For a formalist (one who expresses the ethics of formalism), the ethical focus is on the worth of an individual. Individuals have rights, and these rights should not be infringed, even at the expense of society as a whole, because they have an intrinsic moral value to them.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

50) The _____, proposed by Kant, says that a person has a moral duty to act in the way he or she believes everyone should act.
A) social contract theory
B) deontological imperative
C) categorical imperative
D) consequentialist theory
E) relativistic approach

Answer: C
Explanation: For the formalist thinker Immanuel Kant (1724–1804), to be ethical requires that people act with a good intent. To have a good intent, they have to act in ways that are ethically consistent. This emphasis on consistency Kant called the categorical imperative. People have a moral duty to act in the way they believe everyone should act.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
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51) Which of the following intellectuals created the theory of the categorical imperative?
A) Adam Smith
B) Socrates
C) John Rawls
D) Immanuel Kant
E) Euripides

Answer: D
Explanation: Immanuel Kant created the theory of the categorical imperative. For Immanuel Kant, to be ethical requires that people act with a good intent.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

52) Which of the following statements is true of the categorical imperative?
A) It allows one to make an exception for one's own benefit.
B) It propagates that there is hardly any need to act in the way one believes everyone should act.
C) It holds that one can choose to be unethical if a situation demands it.
D) It requires one to act with good intent to be ethical.
E) It holds that one can hold contradictory opinions and act on them without having to ensure consistency with what others believe.

Answer: D
Explanation: For Immanuel Kant, to be ethical requires that people act with a good intent. To have a good intent, they have to act in ways that are ethically consistent.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
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53) Amy fakes a stomach ache to skip her gym class. A few weeks later, when her friend, Sarah, lies to their gym teacher about being sick, Amy tells their teacher that Sarah is lying about being sick. Amy tells the teacher that she is not in favor of lying. According to Immanuel Kant, Amy would most likely be in violation of _____.
A) *the good*
B) social contract theory
C) the categorical imperative
D) the Protestant Ethic
E) consequentialism

Answer: C
Explanation: According to Immanuel Kant, Amy would most likely be in violation of the categorical imperative. For the formalist thinker Immanuel Kant (1724–1804), to be ethical requires that people act with a good intent. To have a good intent, they have to act in ways that are ethically consistent.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Apply
AACSB: Analytical Thinking; Ethics

54) Who developed the social contract theory?
A) John Rawls
B) Immanuel Kant
C) John Locke
D) Robert Jackall
E) Plato

Answer: A
Explanation: The social contract theory was developed by John Rawls. He furnishes an important recent example of how formalism has influenced thinking about business and personal ethics. This theory is based not on duty but on contract (agreement).
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

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55) The social contract theory concerns itself with how to construct a just society given _____.
A) the many inequalities of wealth, knowledge, and social status
B) the difficulty of acting toward others as people would have them act toward themselves
C) the many logical fallacies contained in legal contracts
D) the implicit agreement that the powerful are best suited to govern
E) the inherent nature of those in a society to argue and reject consensus

Answer: A
Explanation: Social contract theory concerns itself with how to construct a just society given the many inequalities of wealth, knowledge, and social status. Freeing oneself of self-knowledge, Rawls argues, improves one's ability to evaluate the terms of a fair agreement (contract) under which he or she enters society or joins an organization like a corporation.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

56) According to Rawls, it is important to forget one's own age, gender, race, intelligence, strength, wealth, or social status when determining the ethical values on which a just society can be built. What purpose does this step serve?
A) It permits one put oneself first before considering others.
B) It keeps one from being self-interested in the ethical values he or she considers.
C) It ensures that one acts for one's self-esteem and identity rather than on the perception of others.
D) It makes it easier to consider the usefulness of one's actions.
E) It promotes the assumption that what one personally needs or wants is morally correct.

Answer: B
Explanation: Social contract theory concerns itself with how to construct a just society given the many inequalities of wealth, knowledge, and social status. Rawls suggests a simple first step in determining the ethical values on which a just society can be built. One should assume that one does not know his or her age, gender, race, intelligence, strength, wealth, or social status. This step is vital because it keeps one from being self-interested in the ethical values he or she considers.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
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57) According to John Rawls, in order to think ethically, people must have a veil of ignorance, which requires that people _____.
A) put themselves in the position of those affected by their decision and act as they would want them to act
B) recognize that unless they are totally unaware of the other parties involved so as to eliminate bias, they cannot make valid ethical decisions
C) recognize that unless they are totally unaware of the circumstances leading to the ethical dilemma so as not to be influenced by unchangeable history, they cannot make valid ethical decisions
D) lose the assumption that what they personally want or need is necessarily morally correct
E) make all ethical decisions as if they did not have any knowledge of ethical or moral history to color their decision

Answer: D
Explanation: Rawls's veil of ignorance means that to think ethically, people must lose the assumption that what they personally need or want is necessarily morally correct. Placing themselves behind a veil of self-ignorance, Rawls proposes two ethical principles. First, everyone is entitled to certain equal basic rights, including liberty, freedom of association, and personal security. Second, although there may be social and economic inequalities, these inequalities must be based on what a person does, not on who a person is, and everyone must have an equal opportunity for achievement.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

58) Immanuel Kant believed that ethical people act with good intent, which means that they proceed in ethically consistent ways. Kant termed his notion of ethical consistency _____.
A) utilitarianism
B) protestant ethic
C) reasonable judgment
D) categorical imperative
E) realistic imperative

Answer: D
Explanation: For the formalist thinker Immanuel Kant (1724–1804), to be ethical requires that people act with a good intent. To have a good intent, people have to proceed in ethically consistent ways. This emphasis on consistency Kant called the categorical imperative. The categorical imperative implies that people have a moral duty to act in the way they believe everyone should act.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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59) Ethical formalism is illustrated in which of the following:
A) The greatest happiness of the greatest number is the foundation of morals and legislation.
B) The standards of morality are undoubtedly flexible.
C) The openness in communication is deemed fundamental.
D) The weakest argument for raising the ethics bar boils down to self-interest.
E) Loss of confidence in an organization is the greatest downside of unethical behavior.

Answer: C
Explanation: The statement "Openness in communications is deemed fundamental" is an example of ethical formalism. Formalism is an approach to ethics that affirms an absolute morality.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

60) According to Rawls, which of the following serves as the first step in determining the ethical values on which a just society can be built?
A) To assume that one is not aware of one's own age, gender, race, intelligence, strength, wealth, or social status
B) To weigh the effects of one's decisions on the society and oneself and thereby choose the path that brings in maximum benefit
C) To be completely self-aware of one's ambitions and goals
D) To test the morality of actions done by others in a society
E) To use formalism to formulate acceptable codes of conduct

Answer: A
Explanation: Rawls suggests a simple first step in determining the ethical values on which a just society can be built. One should assume that one is not aware of one's own age, gender, race, intelligence, strength, wealth, or social status. Social contract theory concerns itself with how to construct a just society given the many inequalities of wealth, knowledge, and social status.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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61) Which of the following is one of the ethical principles proposed by Rawls?
A) People from the lower strata of a society should be given special opportunities for achievement.
B) Social inequalities should be based on a person and not on his or her actions.
C) Everyone is entitled to certain equal basic rights, including liberty, freedom of association, and personal security.
D) The concerns of an individual are more important than the concerns of a society.
E) Economic inequalities should be based on a person and not the person's actions.

Answer: C
Explanation: Placing himself behind a veil of self-ignorance, Rawls proposes two ethical principles. First, everyone is entitled to certain equal basic rights, including liberty, freedom of association, and personal security. Second, although there may be social and economic inequalities, these inequalities must be based on what a person does, not on who a person is, and everyone must have an equal opportunity for achievement.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

62) A formalist is best defined as one who:
A) Predominately believes and works for the common good.
B) Attempts to achieve utilitarianism as fast as possible
C) Places ethical focus on the worth of an individual.
D) Evaluates the consequence or end result of an action and not the action itself.
E) Places little emphasis on duty or moral obligation.

Answer: C
Explanation: For a formalist (one who expresses the ethics of formalism), the ethical focus is on the worth of an individual. Individuals have rights, and these rights should not be infringed, even at the expense of society as a whole, because they have an intrinsic moral value to them.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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63) Which of the following is a possible conclusion that can be drawn when comparing formalist and consequentialist approaches to solving an ethical problem?
A) A formalist and a consequentialist can never reach a similar conclusion to an ethical problem
B) A formalist and a consequentialist will always draw different conclusions to an ethical problem
C) A formalist and a consequentialist will use different approaches to evaluating an ethical problem, but may arrive at the same conclusion
D) A formalist and a consequentialist will approach evaluating an ethical problem in the same way and reach the same conclusion
E) A formalist and a consequentialist will approach evaluating an ethical problem in the same way, but reach different conclusions

Answer: C
Explanation: Although formalism and consequentialism take very different views on ethics, a formalist and a consequentialist will not always reach different conclusions about an ethical problem. Their approaches to evaluating the problems will be different, but they can reach a similar conclusion overall.
Difficulty: 3 Hard
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Apply
AACSB: Analytical Thinking

64) Which of the following statements best defines ethics?
A) Ethics is a legal system for evaluating who profits in a business transaction.
B) Ethics is merely a different term for the laws and regulations created by a government.
C) Ethics is an irrational method used specifically in examining the morality of lives.
D) Ethics is a simplified term given to the momentary decisions one makes regarding which answer will lead to the most personally successful solution.
E) Ethics is a formal system for deciding what is right and wrong and for justifying moral decisions.

Answer: E
Explanation: Ethics involves a rational method for examining people's moral lives, not only for recognizing what is right and wrong but also for understanding why people think something is right or wrong. Ethics is a formal system for deciding what is right and wrong and for justifying moral decisions.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

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65) When speaking about ethics, the moral goals and objectives people choose to pursue is called _____
A) business ethics
B) morality
C) the Protestant Work Ethic
D) *the good*
E) philanthropy

Answer: D
Explanation: The end result of ethical examination is what philosophers call the good. The concept of the good is central to the study of morality. The good may be defined as those moral goals and objectives people choose to pursue. It serves to define people. Thus, leading a good life means more than having the good life. It means more than material possessions and luxury.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

66) Which of the following statements is true of ethical systems?
A) They are institutions of the state.
B) They believe that the motivation to observe moral values usually comes from within an individual.
C) They set a bare minimum standard acceptable to a society, and violations of the standards are punishable under the legal system.
D) They are based on just meeting minimum legal requirements.
E) They hold that every ethical value is enforced by the state.

Answer: B
Explanation: A difference between ethics and law concerns motivation. Although values found in ethics may be imposed on an individual (by the family, the company, or the law), the motivation to observe moral rules comes from within. However, even though the values found in law may also be personal ethical values of an individual, the motivation to observe the law comes from outside the individual in the form of state sanctions.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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67) Which of the following is a difference between ethical and legal systems?
A) The moral values are observed from within the legal system, whereas the moral values are observed in the form of state transaction in an ethical system.
B) An ethical system consists of rules to guide conduct, whereas the legal system consists only of rules to foster social cooperation.
C) An ethical system primarily deals with what is wrong, whereas the legal system primarily deals with what is right.
D) The legal system involves a broader-based commitment to proper behavior than an ethical system.
E) The legal system is an institution of state, whereas an ethical system is not an institution of state.

Answer: E
Explanation: Unlike ethical systems, the legal system is an institution of the state. Both deal with what is right and wrong.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

68) Which of the following statements is true of the legal system?
A) The state enforces legal rules through civil and criminal sanctions.
B) The motivation to observe moral values in a legal system comes from within an individual.
C) It sets moral standards but does not legally prosecute in instances of breach.
D) It involves a broader-based commitment to proper behavior than does the ethical system.
E) It sets the highest ethical standards acceptable to a society.

Answer: A
Explanation: Unlike ethical systems, the legal system is an institution of the state. The state enforces legal rules through civil and criminal sanctions, like monetary damage awards, fines, and imprisonment.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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69) Which of the following is the best definition of morality?
A) The collection of values that guides human behavior
B) A legal obligation imposed by the law
C) An industry's regulation of itself
D) A set of beliefs urging that human indulgence be bent to God's will through hard work and self-denial
E) Goals that managers choose to pursue

Answer: A
Explanation: Morality is the collection of values that guides human behavior. In society at large, the sharing of moral values promotes social cooperation and is a significant means of social control.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

70) Which of the following represents a true statement about the sharing of morals?
A) It is a significant means of social control
B) It usually fails to set limits on unethical behavior
C) It creates an atmosphere of mistrust and suspicion among people.
D) It is not a significant means of social control
E) It stifles social cooperation as many people fail to accept others.

Answer: A
Explanation: In society at large, the sharing of morals promotes social cooperation and is a significant means of social control. Shared moral values lead people to accept and trust others. Shared values allow people to recognize when there is proper behavior in others and where limits to behavior rightfully belong. Shared moral values create social harmony.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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71) "The good" is defined by philosophers as _____.
A) a veil of ignorance
B) the end result of ethical examination
C) a legal obligation imposed by law
D) the set of beliefs urging human desire to be bent to God's will
E) due diligence

Answer: B
Explanation: The end result of ethical examination is what philosophers call the good. The concept of the good is central to the study of morality. The good may be defined as those moral goals and objectives people choose to pursue. It serves to define people.
Difficulty: 1 Easy
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

72) Which of the following is a similarity between ethical and legal systems?
A) Both systems are institutions of the state.
B) In both systems, the motivation to observe moral values comes from within an individual.
C) Both systems are based on utilitarian views.
D) Both systems consist of rules to guide conduct and foster social cooperation.
E) In both systems, ethical behavior is based on just meeting minimum legal requirements.

Answer: D
Explanation: Ethics and law have similar or complementary purposes. Both consist of rules to guide conduct and foster social cooperation. Both deal with what is right and wrong.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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73) Which of the following statements is true of the role of economic interdependence on business ethics and society?
A) It reduces concerns about business ethics.
B) It sometimes gives opportunities to executives who control what stockholders own to manipulate corporate actions for their own benefit.
C) It reduces any transparency problems in an organization as corporate leaders are usually the real owners of corporations.
D) It predominantly results in utilitarianism.
E) It ensures that the decision taken by stockholders have little effect on others.

Answer: B
Explanation: A serious ethical problem arises from economic interdependence and the modern corporation, which is the structure of most large businesses in this country. The problem is that the corporate leaders are not the real owners of corporations. The stockholders are, and although corporate executives and managers may own some stock, they seldom own significant percentages of very large companies. The ethical problem that can arise is that the executives and managers who control what the stockholders own are sometimes able to manipulate corporate actions for their own benefit, actions that have unacceptable risks to the owners and others.
Difficulty: 2 Medium
Topic: The Nature of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

74) In the context of ethical issues, modern economic theory reflects _____.
A) formalism
B) the categorical imperative
C) the monopolistic approach
D) consequentialism
E) utilitarianism

Answer: E
Explanation: Modern economic theory reflects utilitarianism. The dominant form of consequentialism is utilitarianism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
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75) Which of the following would a consequentialist find to be true?
A) harm done by lying is unethical
B) end results of lying are unimportant
C) the act of lying, itself, is important
D) harm done by lying has no relevance in determining whether it is ethical
E) act of lying is justified if it is well-concealed

Answer: A
Explanation: For a consequentialist, lying itself is not unethical. It is the consequences, or end results of lying, that must be evaluated for their ethical implications. It is the loss of trust or harm done by lying that is unethical.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

76) For utilitarians, the _____.
A) individual rights of a person are integral to analyzing the morality of actions
B) common good is of the least importance
C) formalist approach is the basis of every moral action
D) ethical focus is on the self-worth of an individual
E) end justifies the means

Answer: E
Explanation: For utilitarians, the end justifies the means. The dominant form of consequentialism is utilitarianism. Utilitarianism judges actions by usefulness, by whether they serve to increase the common good.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
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77) _____ derives from society's expectations about how fair and reasonable actions are.
A) Good faith
B) Due care
C) Utilitarianism
D) Conflict of interest
E) Liberty

Answer: B
Explanation: Due care derives from society's expectations about how fair and reasonable actions are. Due care promotes the common good.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

78) Which of the following statements is true of the Protestant ethic?
A) It was a massive threat to capitalism.
B) It was rooted in a consequentialist approach.
C) It has become a type of utilitarian consequentialism.
D) It has remained unaffected by rising wealth and increasing mass consumption.
E) It has become an organizational ethics that discourages the modern bureaucratic managerial system.

Answer: C
Explanation: The religious formalism of the Protestant ethic has become a type of utilitarian consequentialism. The religious basis of the Protestant ethic was eroded by rising wealth and the encouragement of mass consumption.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
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79) Which of the following occurs when one attempts to serve two masters?
A) A conflict of interest
B) A veil of ignorance
C) A writ of certiorari
D) *Ratio decidendi*
E) *Voir dire*

Answer: A
Explanation: A conflict of interest occurs when one attempts to "serve two masters," and no agent or employee of one principal can secretly work for another whose interest competes with that of the first principal. That is why a real estate agent may not represent both the seller and the buyer in a real estate transaction without permission from both parties.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

80) According to the Ethical Norms and Values for Marketers from the American Marketing Association, which of the following ethical values states that a marketer should accept the consequences of the marketing decisions and strategies taken by him or her?
A) Honesty
B) Responsibility
C) Fairness
D) Openness
E) Respect

Answer: B
Explanation: In the context of the Ethical Norms and Values for Marketers from the American Marketing Association, responsibility states that a marketer should accept the consequences of the marketing decisions and strategies taken by him or her. Fairness requires marketers to try to balance justly the needs of a buyer with the interests of a seller.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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81) According to the Ethical Norms and Values for Marketers from the American Marketing Association, which of the following ethical values requires marketers to try to balance justly the needs of a buyer with the interests of a seller?
A) Honesty
B) Responsibility
C) Fairness
D) Openness
E) Respect

Answer: C
Explanation: In the context of the Ethical Norms and Values for Marketers from the American Marketing Association, fairness requires marketers to try to balance justly the needs of a buyer with the interests of a seller. Responsibility states that a marketer should accept the consequences of the marketing decisions and strategies taken by him or her.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

82) Which of the following ethical principles focuses on the common good rather than on individual rights?
A) Formalism
B) Hedonism
C) Utilitarianism
D) Narcissism
E) Libertinism

Answer: C
Explanation: Formalism focuses on individual rights, whereas consequentialism focuses on the common good. The dominant form of consequentialism is utilitarianism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

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83) The dominant form of consequentialism is _____.
A) utilitarianism
B) hedonism
C) libertinism
D) narcissism
E) Marxism

Answer: A
Explanation: The dominant form of consequentialism is utilitarianism. Formalism focuses on individual rights, whereas consequentialism focuses on the common good. The ethics of actions are measured by how they promote the common good. If actions increase the common good, they are ethical. If actions cause overall harm to society, they are unethical.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

84) The values-based management approach to business ethics illustrates consequentialism through its emphasis on _____.
A) teaching ethical values that enhance the profitability of a company specifically to the top management and supervisory personnel
B) teaching ethical values that enhance the profitability of a company to all employees
C) teaching ethical values to management and supervisory personnel with the aim of avoiding ethical issues, whether profitability is affected or not
D) teaching ethical values to all employees with the aim of avoiding ethical issues, whether profitability is affected or not
E) teaching ethical values to employees to punish them for unethical conduct

Answer: B
Explanation: One approach to business ethics, called "values-based management," illustrates consequentialism. The emphasis of this approach teaches ethical values to employees that enhance the profitability of a company. Examples include why it is wrong to use company computers for personal entertainment during work hours and why it is unethical to use company long-distance phone service to contact friends and relatives.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
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85) Which of the following quotes is a true-life example of the formalist approach to ethics?
A) "There is no doubt that ethics pays off at the bottom line."
B) "The strongest argument for raising the ethics bar boils down to self-interest."
C) "The greatest happiness of the greatest number is the foundation of morals and legislation."
D) "Loss of confidence in an organization is the single greatest cost of unethical behavior."
E) "We hold these truths to be self-evident."

Answer: E
Explanation: Formalism is an approach to ethics that holds an absolute morality. The quote from the Declaration of Independence, "We hold these truths to be self-evident," illustrates an absolutism towards the morals held in the document. The other quotes are examples of consequentialism, which considers the moral consequences of actions rather than the actions themselves. An act is not considered absolutely immoral or unethical under consequentialism.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

86) The primary goal or end of business leaders is to produce a profit. This orientation reflects _____.
A) deontology
B) formalism
C) consequentialism
D) the Protestant ethic
E) Darwinism

Answer: C
Explanation: Although business ethics reflect elements of both formalism and consequentialism, they focus more heavily on the latter. Business leaders feel a need to justify what they do in terms of whether it produces dividends for their shareholders. Their primary goal or end is to produce a profit. This orientation reflects consequentialism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
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87) Which of the following statements is true of consequentialism?
A) It focuses primarily on individual rights.
B) It views lying as an unethical practice.
C) It is found in the way in which managers use cost-benefit analysis to evaluate alternative courses of action.
D) It is primarily a duty-based view of ethics.
E) It asserts that individuals have rights, and that these rights should not be infringed, even at the expense of society as a whole, because they have an intrinsic moral value to them.

Answer: C
Explanation: The primary goal or end of business leaders is to produce a profit. This orientation reflects consequentialism. The way business managers evaluate alternative courses of action through cost-benefit analysis is a form of consequentialism.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

88) The Protestant ethic was rooted in a(n) _____.
A) utilitarian approach
B) consequentialist approach
C) relativist approach
D) formalist approach
E) epistemological approach

Answer: D
Explanation: The Protestant ethic was rooted in a formalist approach: honesty and keeping promises were intrinsically good. Religion provided the impetus to hard work and achievement. Human desire and indulgence, said Protestants, should be bent to God's will through self-denial, rational planning, and productivity.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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89) According to sociologist Robert Jackall's view of the modern bureaucratic managerial system, how has the Protestant ethic changed over time?
A) The Protestant ethic has become the only viable ethical system for American corporations.
B) The profiteering of the Protestant ethic became a justification for economic excess.
C) The religious consequentialism of the Protestant ethic became the dominant system of formalistic morality.
D) The Protestant ethic collapsed as a viable ethical system.
E) The religious formalism of the Protestant ethic has become a type of utilitarian consequentialism.

Answer: E
Explanation: The Protestant ethic became transformed into an organizational ethic that supports the modern bureaucratic managerial system. The sociologist Robert Jackall identifies this system as having "administrative hierarchies, standardized work procedures, regularized timetables, uniform policies, and centralized control." The goal of this system is to produce profit. Business actions are justified by their usefulness in accomplishing the goal. The religious formalism of the Protestant ethic has become a type of utilitarian consequentialism.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

90) Opponents of the Civil Rights Act of 1964 inserted the prohibition against _____ in employment in hopes of preventing its passage, thinking that such discrimination was acceptable and that many others agreed with them.
A) age discrimination
B) religious discrimination
C) sex discrimination
D) race discrimination
E) ethnic discrimination

Answer: C
Explanation: Opponents of the bill that went on to be passed as the Civil Rights Act of 1964 inserted the prohibition against sex discrimination in hopes of preventing its passage. Obviously, these legislators believed that sex discrimination in employment was acceptable and that many others agreed with them.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
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91) Which of the following acts prohibits employment discrimination based on race, sex, color, religion, and national origin?
A) The Civil Rights Act of 1964
B) The Sarbanes-Oxley Act of 2002
C) The Glass–Steagall Act
D) The Foreign Corrupt Practices Act
E) The Commodity Futures Modernization Act of 2000

Answer: A
Explanation: The Civil Rights Act of 1964 prohibits employment discrimination based on "race, sex, color, religion, and national origin." Society's ethical commitment to equal opportunity became law in the Civil Rights Act of 1964.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking

92) _____ means "honesty in intent" and "honesty in fact."
A) Acting in good faith
B) Acting in due care
C) Acting in conflict of interest
D) Acting in confidentiality
E) Acting in liberty and rights of individuals

Answer: A
Explanation: The law requires that good faith be demonstrated in various economic and other transactions. An example comes from the Uniform Commercial Code, adopted in 49 of the 50 states. It requires that all sales of goods must be carried out in good faith, which means "honesty in intent" and "honesty in fact."
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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93) In which of the following situations is there a conflict of interest?
A) A judge who occasionally shops in a store that is involved in a case before the same judge
B) A real estate agent representing the buyer and seller of a house with permission from the buyer and seller
C) An agent of one principal who secretly works for another whose interest competes with that of the first principal
D) A bank regulator using a credit union
E) A lawyer discussing a case with his or her boss

Answer: C
Explanation: A conflict of interest occurs when one attempts to "serve two masters," and no agent or employee of one principal can secretly work for another whose interest competes with that of the first principal. That is why a real estate agent may not represent both a seller and a buyer in a real estate transaction without permission from both parties.
Difficulty: 2 Medium
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking

94) Professionals, such as attorneys, physicians, and accountants, have a duty to honor confidentiality. Confidentiality is a part of which of the following sources of ethical values?
A) Professional codes of ethics
B) Legal regulation
C) Protestant work ethic
D) Individual values
E) Organizational code of ethics

Answer: B
Explanation: There are at least four sources of values for business ethics. Legal regulation is one of these sources, and confidentiality is one of the major values to stem from legal regulation. In the example of professionals, such as attorneys and physicians, if these professionals violate the ethical value of confidentiality, they may be subject to legal regulation, such as being sued for malpractice.
Difficulty: 2 Medium
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
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95) Which of the following is a national group of senior business leaders that has identified a general list of topics that organizational codes of business ethics should cover?
A) The Corporate Deciders
B) The Business Roundtable
C) The National Business Ethics Survey
D) The Board of Review
E) The Springfield Armory

Answer: B
Explanation: The Business Roundtable, a national group of senior business leaders, has identified a general list of topics that organizational codes of business ethics should cover. Some of these include fundamental honesty and adherence to the law, product safety and quality, health and safety in the workplace, conflicts of interest, and fairness in selling/marketing practices.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking

96) Hannah Arendt believed that evil often comes from a kind of _____.
A) apathy
B) ignorance
C) thoughtlessness
D) boredom
E) anger

Answer: C
Explanation: The philosopher Hannah Arendt explained that evil often comes from a kind of thoughtlessness. Thinking about the ethical implications of what one decides and what one does is the first step in leading a good life.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-03 To generate an individual framework for ethical values in business.
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97) Plato wrote that immoral behavior often flows from _____.
A) apathy
B) ignorance
C) thoughtlessness
D) boredom
E) anger

Answer: B
Explanation: Plato wrote that immoral behavior often flows from ignorance. Thinking about the ethical implications of what one decides and what one does is the first step in leading a good life.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-03 To generate an individual framework for ethical values in business.
Bloom's: Remember
AACSB: Analytical Thinking

98) Stakeholder theory suggests that ethical corporate behavior _____.
A) strongly relies on government interaction
B) focuses primarily on whether corporate actions take the interests of all employees into account before making significant business decisions
C) depends on managers who recognize and take into account the various stakeholders whose interests a corporation affects
D) takes unacceptable risks only when the risk has a reasonable likelihood of enriching the stakeholders' net worth substantially
E) requires interaction specifically between managers and customers to promote profit sharing

Answer: C
Explanation: Stakeholder theory suggests that ethical corporate behavior depends on managers who recognize and take into account the various stakeholders whose interests a corporation affects. This theory includes but goes beyond the responsibilities of corporate governance, which focuses on the legal responsibilities of managers to society and to the investor-owners of a corporation.
Difficulty: 1 Easy
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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99) Which of the following statements is true about the role and effect of profits on ethical corporate behavior?
A) In many modern business corporations, the responsibility for profit making is decentralized.
B) Making a profit usually deteriorates the common good.
C) Profit earning is the least important goal in the contemporary business environment.
D) A decline in the Protestant ethic reduces the emphasis on corporate profit.
E) In many situations, focusing on profits hinders managers from engaging in any unethical behavior.

Answer: A
Explanation: The primary goal of the modern business corporation is to produce a profit. In many corporations, the responsibility for profit making is decentralized.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

100) According to the Spanish journal *Boletín Círculo*, which of the following is true about business ethics?
A) Profits and business ethics are usually contradictory.
B) Unethical behavior is hardly a business liability.
C) Immoral behavior often flows from ignorance.
D) Business ethics reflect business leadership.
E) Ongoing reevaluations of ethics are insignificant and time-consuming.

Answer: D
Explanation: An observation made by the Spanish journal *Boletín Círculo* is that business ethics reflect business leadership. Top firms can and should exercise leadership in business ethics.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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101) Which of the following statements is true of the effect of the group on ethics in a corporate organization?
A) Individuals hardly do unethical things when they are part of a group.
B) Coupled with an overemphasis on profit, the group effect reduces the difficulty of achieving an ethical business corporation.
C) Individuals in groups may feel a diminished sense of responsibility for actions taken, which invites ethical compromise.
D) In corporate life, it is difficult to overlook the unethical behavior of a superior when many fellow employees are also overlooking it.
E) Individuals feel more responsible for what happens in a group than in their individual lives.

Answer: C
Explanation: That individuals in groups may feel a diminished sense of responsibility for decisions made and actions taken invites ethical compromise. Coupled with an overemphasis on profit, the group effect increases the difficulty of achieving an ethical business corporation.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

102) Which of the following belongs to the category of involuntary stakeholders?
A) The employees
B) The top management
C) The shareholders
D) The suppliers
E) The community

Answer: E
Explanation: Stakeholder theory suggests that through its managers, an ethical corporation realizes the interdependence of all stakeholders and demonstrates fairness toward both voluntary stakeholders (e.g., employees) and involuntary stakeholders (e.g., the community).
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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103) Stakeholder theory suggests that through its managers, an ethical corporation _____.
A) considers primarily the concerns of top- and mid-level managers
B) restricts stakeholders to communicate with decision makers so as to ensure smooth functioning of business
C) acknowledges the potential conflict between managerial self-interest and the ethical responsibility of managers to other stakeholders
D) focuses and remains within the responsibilities of corporate governance and not to focus on legal responsibilities of managers to society
E) discourages open procedures that aid managers to monitor their own ethical performance

Answer: C
Explanation: Stakeholder theory suggests that through its managers, an ethical corporation acknowledges the potential conflict between managerial self-interest and the ethical responsibility of managers to other stakeholders and promotes open procedures that allow managers to monitor their own ethical performance.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

104) How does the 2008 economic recession illustrate the potential problems of economic interdependence?

Answer: The 2008 recession illustrates economic interdependence. In pursuit of profits and personal reward, bankers and traders at leading financial institutions turned a blind eye to what might happen in their businesses if the bubble of steadily rising house prices burst and borrowers could not repay loans conditioned on ever-rising home values. Bank stockholders, which included large pension funds, lost hundreds of billions of dollars. Banks could not extend enough credit to enable many businesses to buy inventory and meet payrolls. Businesses laid off millions of workers who then could not buy goods and services, and the economy began a downward spiral. By 2011, according to the Financial Crisis Inquiry Report, about four million families had lost their homes to foreclosure and another half million had slipped into the foreclosure process or were seriously behind on their mortgage loan payments. Some $11 trillion in household wealth had vanished, with retirement accounts and life savings swept away. Millions of workers lost their jobs during the recession, and even as the economy began to recover, they had difficulty finding new work. As credit from the banks dried up, the adverse economic effects spiraled throughout the economy.
Difficulty: 2 Medium
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking

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105) Explain the different evaluation processes a formalist and a consequentialist would use to reach an ethical conclusion about an employer secretly monitoring an employee's use of the company email system?

Answer: Formalists might say that secret monitoring treats employees only as a means to the end of increasing organizational efficiency and does not respect their self-worth as individuals. The monitoring also does not respect their dignity and their privacy. Formalists might conclude that secret monitoring is unethical. Explaining the problem to the employees and asking for their consent to monitor would be a more ethical action to take. For a consequentialist, the act of secret monitoring itself is ethically neither right nor wrong. It is the end result that is ethically important. Secret monitoring and the punishment of wrongdoers are useful in improving productivity, which is an appropriate company goal and beneficial to society at large. To that extent, secret monitoring is ethically acceptable. But the punishment of wrongdoers will likely reveal to all employees that their e-mail has been secretly monitored.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking

106) What potential problems arise from the modern corporate structure and its dependence on separation of the managers from the owners?

Answer: The problem is that corporate leaders are not the real owners of corporations. The stockholders are, and although corporate executives and managers may own some stock, they seldom own significant percentages of very large companies. The ethical problem that can arise is that the executives and managers who control what the stockholders own are sometimes able to manipulate corporate actions for their own benefit, actions that have unacceptable risks to the owners and others. Executives, managers, and other employees are sometime able to take actions that if successful benefit themselves greatly, but if unsuccessful affect many others harmfully.
Difficulty: 1 Easy
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Remember
AACSB: Analytical Thinking

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107) Civil rights leaders in their quest to promote civil rights and equality often held peaceful marches and non-violent sit-ins that they understood to be at times illegal. Their justification for their actions was to promote and give focus to inequities with the ultimate aim of reducing discrimination and establishing equal rights for all. Were these leaders acting ethically? Fully explain your answer citing the ethical theory you believe to apply.

Answer: Student answers will vary. Those who believe that they acted unethically should cite and explain a formalist approach to justify their answer. Those students who believe that the actions were ethical should cite a consequentialist/utilitarian approach to justify their answer. For the formalist (one who expresses the ethics of formalism), the ethical focus is on the worth of the individual. Individuals have rights, and these rights should not be infringed, even at the expense of society as a whole, because they have an intrinsic moral value to them. If formalism focuses on individual rights, consequentialism focuses on the common good. The ethics of actions are measured by how they promote the common good. If actions increase the common good, they are ethical. If actions cause overall harm to society, they are unethical.
Difficulty: 2 Medium
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

108) In the context of the social contract theory, explain the ethical principles proposed by John Rawls.

Answer: Placing himself behind a veil of self-ignorance, Rawls proposes two ethical principles. First, everyone is entitled to certain equal basic rights, including liberty, freedom of association, and personal security. Second, although there may be social and economic inequalities, these inequalities must be based on what a person does, not on who a person is, and everyone must have an equal opportunity for achievement.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
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109) Paula is a 44-year-old with a chronic illness. She has no family, does not have steady employment, and has minimal health insurance. Paula is on a fixed income and barely has enough money to survive. Her doctor tells her that she must take a specific medicine or her illness will become more severe. The medicine will cost $500.00 for a month's supply, and only $100.00 of that is covered by insurance. Paula goes to a convenience store and tells the cashier, "Give me $400.00, or I will shoot." When Paula is later arrested, she tells the police that she needed the money to buy the expensive medicine. Understanding that robbery is a crime, is there an ethical theory that can serve to justify Paula's actions?

Answer: The ethical theory of consequentialism examines the moral consequences of actions rather than the morality of the actions themselves. No one may argue that robbery and stealing can be legal, but Paula's purpose was not to do harm and was merely for self-survival when she had no alternative. A consequentialist will view her actions as ethical under these circumstances.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

110) How has the role of government changed the ethical environment of businesses?

Answer: When business fails to make ethical decisions, when it fails to live up to society's expectations for ethical behavior, government may step in. Government regulates business when there are ethical failures such as those that preceded the Sarbanes-Oxley Act of 2002 when business scandals dominated headlines. Business leaders have incentive to promote corporate integrity, and thereby to limit further governmental regulation. They recognize that by encouraging ethical conduct and self-regulation within business organizations, they will prevent outside standards from being imposed on them through public law. As a consequence, both business and industry have, in recent decades, developed codes of ethics. Such efforts by professions and businesses to set standards of behavior are evidence of the increasing tendency toward self-regulation. Self-regulation can mean more than helping a business stay out of trouble. Companies that are perceived as ethical and acting in a responsible manner can attract loyal customers, employees, and investors. Federal law also encourages self-regulation. Federal sentencing guidelines reduce criminal fines for legal violations in companies that have taken specific steps to self-police ethical/legal conduct.
Difficulty: 2 Medium
Topic: Contemporary Business Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
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111) Of the two main systems of ethics, which do you think is better for a corporate philosophy? Compare the two, giving examples of each and potential problems.

Answer: Students should engage the material, discussing the implications of how to always know what is moral for formalists and the relativity of deciding right and wrong only after the consequences have been considered. Students should exhibit knowledge of the material in how corporate managers must be held accountable to objective standards but compare this with the overarching purpose of profit. Formalism is an approach to ethics that affirms an absolute morality. A particular act is in itself right or wrong, always and in every situation. For example, lying is wrong. There are no justifications for it, and its wrongness does not depend on the situation in which the lie is told. Formalism is primarily a duty-based view of ethics. Consequentialism concerns itself with the moral consequences of actions rather than with the morality of the actions themselves. For the consequentialist, lying itself is not unethical. It is the consequences, or end results, of lying that must be evaluated for their ethical implications. It is the loss of trust or harm done by lying that is unethical.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.; 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

112) In 2005, Hurricane Katrina had a significant impact on oil rigs in the Gulf of Mexico, causing a shortage in gasoline. In response, price gouging occurred, rapidly increasing the price of gasoline. Price gouging is often deemed unethical and, therefore, an illegal business tactic. Explain what ethical conclusion a formalist and a consequentialist would reach when evaluating the price gouging that occurred after Hurricane Katrina.

Answer: A formalist sees absolutes in ethics. A formalist sees every act as either right or wrong. In the case of price gouging after Hurricane Katrina, a formalist would reach the conclusion that price gouging is unethical in and of itself. There is no justification for this drastic increase in prices. The consequentialist, on the other hand, looks at the moral consequences of the act, not the act itself. Consequentialists will focus on the common good and the impact that the questionable act has on society. With the Katrina price gouging, the consequentialist would say that it increased the common good because it reduced non-essential driving, which, in turn, assisted conservationism and the environment. Additionally, the consequentialist could say that the increased profits of the oil companies aided in economic growth after a terrible natural disaster. This also promotes the common good, and price gouging, in this situation, may be ethical.
Difficulty: 3 Hard
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Apply
AACSB: Analytical Thinking; Ethics

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113) What argument would a utilitarian use to explain how the tobacco industry acts as a positive force in society?

Answer: The dominant form of consequentialism is utilitarianism. Utilitarianism judges actions by usefulness, by whether they serve to increase the common good. For utilitarians, the end justifies the means. A utilitarian's views of the tobacco industry as a positive force in society is likely to reinforce that 1) tobacco products have been consumed in the United States since at least the early 1600s; (2) hundreds of thousands of people are involved in the growing, manufacturing, distributing, and selling of tobacco products; and (3) tobacco companies spend about $13 billion annually in advertising and promoting tobacco sales, which benefits the economy.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

114) What roles do regulations serve in promoting ethical decisions in the business world? Do you think there should be more or fewer regulations on business?

Answer: Legal regulation is a significant source of values for business ethics. In fact, many business and professional organizations look to the law when drawing up their codes of ethical conduct. Answers regarding whether there should be more or fewer regulations will vary.
Difficulty: 3 Hard
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Apply
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115) Is the concept of due care a formalist or consequentialist concept? What are the difficulties in applying this to business actions?

Answer: Due care demands that individuals and companies do what is right, given the information available, so it seems that it has a basis in formalism. However, the decisions regarding due care are usually made in court only after something has gone wrong. The Bridgestone/Firestone issue draws attention to the consequentialist nature of due care, in that the decision was a balance between the small fraction of tires that showed defects and the overall potential for damage or injury that could result. The problem is that it is often difficult for companies to know whether to choose reason and permit the small defects to exist or to choose pure morality and never let anything that could go wrong cause an injury.
Difficulty: 1 Easy
Topic: Two Systems of Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
AACSB: Analytical Thinking

116) Trevor works at Trevsinc, a company that has been buying raw materials from Stigg Corp. for years. Stigg Corp., a private corporation, has been doing very well recently and will soon go public, selling its stock on the open market. As appreciation for his years of loyal service, Stigg Corp. offers Trevor the option of buying stocks at a low fixed price before the initial public offering. However, over the last few months, Trevor has been concerned that the management of Stigg Corp. may not be acting ethically and that the success may be because of the management's risky actions. What ethical issues must Trevor consider?

Answer: Students should discuss conflicts of interest. Specific consideration should be given to the issue of accepting stock options before the initial public offering, whether taking these is something similar to a bribe, and whether Trevor should accept the options at all. Further, students should discuss the complications that arise through Trevor's concerns about Stigg's management and whether he wants to take a risk on the stock.
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-02 To analyze why ethical consequentialism and not ethical formalism has been the chief source of values for business ethics.
Bloom's: Remember
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117) What questions should one ask himself or herself to explore his or her ethical values before making a personal or business decision?

Answer: Student answers may vary. Questions to ask while exploring one's ethical values before making a personal or business decision include the following: (1) Has one thought about whether the action he or she may take is right or wrong? (2) Will one be proud to tell of his or her action to his or her family, employer, or the news media? (3) Is one willing for everyone to act as he or she is thinking of acting? (4) Will one's decision cause harm to others or to the environment? and (5) Will one's actions violate the law?
Difficulty: 1 Easy
Topic: Sources of Values for Business Ethics
Learning Objective: 02-03 To generate an individual framework for ethical values in business.
Bloom's: Remember
AACSB: Analytical Thinking; Ethics

118) Is it practical to live by the categorical imperative in a corporate world? What problems could arise by applying this philosophy in a business perspective?

Answer: Kant believed that you have a moral duty to act in the way you believe everyone should act. One should never act in a certain way unless you are willing to have everyone else act in the same way. One cannot make an exception for your own action. Kant said that to make an exception for your own behavior is immoral and unethical. This is problematic in the real world, as it relies on one's own sense of justice to determine how others should act toward you. However, it also forecloses the possibility of doing something potentially wrong in a minor sense to effect a greater result. For instance, some business decisions will undoubtedly have negative results, and one would not want those results imposed on oneself. However, sometimes, those decisions must be made to best serve the business. Relying on individual morality may, in itself, be selfish and impractical.
Difficulty: 2 Medium
Topic: Two Systems of Ethics
Learning Objective: 02-01 To compare the connection between law and ethical principles.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

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119) Achieving and maintaining an ethical business corporation is a laudable but difficult task. What are some of the obstacles that a corporation faces, by its very nature, in seeking an ethical culture?

Answer: There are three distinct obstacles that corporations face in their quest to be ethical. First, there is an emphasis on profit. The purpose of a corporation is to make money. Stakeholders demand and expect profits, which often forces decision makers to choose between black, white, and gray issues. Second, individuals in large groups such as the corporation feel less responsibility for what happens in the group than they do for what happens in their individual lives. They may also act differently, and to some extent less ethically, in a group. Third, there is often control of resources by agents or nonowners. When these nonowners have control of the corporate property, it is easy to manipulate these resources for personal gain or pleasure, resulting in abuse.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

120) Even with a code of ethics, why is it important for top management in a corporation to set an example for ethical conduct?

Answer: To encourage corporate ethics, it is not enough merely to adopt a code of conduct. For the code to change behavior, corporate employees must believe that the values expressed by the code represent the values of the corporation's top management. Top management must act as a role model for values it wishes corporate employees to share.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

121) What is meant by stakeholder theory, and who are the stakeholders of a corporation?

Answer: Stakeholder theory holds that ethical corporate behavior requires that directors and managers take into account everyone whose interests the corporation affects. Those affected are called stakeholders. Stakeholders include customers, suppliers, creditors, employees, the community at large, as well as the board of directors, the officers, investors, and the managers.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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122) What are the four observations made by the Spanish journal *Boletín Círculo* about business ethics?

Answer: The four observations made by the Spanish journal Boletín Círculo about business ethics are that (1) profits and business ethics are not contradictory, (2) an ethical organizational life is a basic business asset that should be encouraged, (3) ethics are a continuing concern to the business community, and (4) business ethics reflect business leadership.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

123) Why should businesses promote openness in communication?

Answer: For ethical corporate values to make their most significant affect on decision making, corporate employees must be willing to talk with each other about ethical issues. Openness promotes trust, and without trust even the best-drafted code of ethics will likely fall short of achieving an ethical business corporation. Beyond helping establish trust, openness in communication is necessary for ethical corporate decision making because of the complexity of information required to evaluate the implications of many business decisions.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

124) How might corporate managers promote a culture of open communication within a corporation?

Answer: Students' answers may vary. Ways to promote communication include top management providing a good role model of concern for speaking out on ethical issues. Another possibility is for employees to meet periodically in small groups to consider either real or hypothetical ethical problems. In general, a shared corporate commitment to the ideal of ethical decision making is important to openness in communication.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
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125) Explain the control of resources by nonowners and how it affects ethical corporate behavior.

Answer: In the modern corporation, the owners (or shareholders) are often not in possession and control of corporate resources. Top management of many corporations effectively possess and control vast resources that they do not own. This produces problems of corporate governance. Sometimes, managers embezzle corporate money or abuse expense accounts. At other times, they misrepresent the financial condition of the corporation to exercise stock options, obtain huge bonuses, or prop up loans they have secured with company stock. Because the very nature of corporate structure gives managers the opportunity to abuse and misappropriate corporate resources owned ultimately by the shareholders, ethical business practice is made more important yet more difficult.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
Bloom's: Understand
AACSB: Analytical Thinking; Ethics

126) Describe the effect of the group on ethical corporate behavior.

Answer: The social critic Ambrose Bierce once remarked that the corporation is "an ingenious device for obtaining individual profit without individual responsibility." He was referring to the fact that individuals in large groups such as the corporation feel less responsibility for what happens in the group than they do for what happens in their individual lives. They may also act differently, and to some extent less ethically, in a group. That individuals will do unethical things as part of a mob that they would never do alone is widely recognized, and the same pattern can be observed in corporate behavior. That individuals in groups may feel a diminished sense of responsibility for decisions made and actions taken invites ethical compromise. Coupled with an overemphasis on profit, the group effect increases the difficulty of achieving an ethical business corporation.
Difficulty: 2 Medium
Topic: Achieving an Ethical Business Corporation
Learning Objective: 02-04 To evaluate the obstacles and rewards of ethical business practice in our property-based legal system.
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