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Strategic Compensation: A Human Resource Management Approach, 10e **(Martocchio)**
Chapter 2 Contextual Influences on Compensation Practice

1) John and Mark hold equivalent secretarial jobs, but John, who makes 20 percent more than Mark, is employed by a manufacturing firm while Mark is employed by a department store. Based on this information, which of the following best explains this pay differential?
A) interindustry wage differentials
B) differences in human capital intensity
C) merit exception of the Equal Pay Act of 1963
D) John's stronger negotiation skills
Answer: A
Difficulty: Easy
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.1: Discuss the reasons for interindustry wage differentials.

2) Which term best describes the extent to which companies' operations are based on the use of large-scale equipment?
A) manufacturing capital intensity
B) human capital intensity
C) capital intensity
D) financial capital intensity
Answer: C
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.1: Discuss the reasons for interindustry wage differentials.

3) Compared to the duration of most training in capital intensive industries, service industry training tends to be which of the following?
A) the same cost
B) shorter
C) longer
D) higher cost
Answer: B
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.1: Discuss the reasons for interindustry wage differentials.

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4) Which of the following is typically the case for companies that operate in product markets where there is relatively little competition from other companies?
A) lower wages and lower profits
B) lower wages and higher profits
C) higher wages and higher profits
D) higher wages and lower profits
Answer: C
Difficulty: Moderate
Skill: Concept
AACSB: Reflective Thinking
LO: 2.1: Discuss the reasons for interindustry wage differentials.

5) On average, Gina would be more likely to earn _____ money if she were to work as a sales clerk for a department store rather than as an assembly technician in an aircraft engine manufacturing plant.
Answer: less
Difficulty: Easy
Skill: Concept
AACSB: Analytical Thinking
LO: 2.1: Discuss the reasons for interindustry wage differentials.

6) Define capital intensity and explain how it relates to compensation outcomes.
Answer: Capital intensity refers to the extent to which companies' operations are based on the use of large-scale equipment. Capital intensity also explains pay differentials between industries. The amount of average pay varies with the degree of capital intensity. On average, capital-intensive industries (e.g., manufacturing) pay more than industries that are less capital intensive (e.g., retail). Capital-intensive businesses require highly capable employees who have the aptitude to learn how to use complex physical equipment such as casting machines and robotics. Workers usually receive on-the-job training, sometimes including employer-sponsored technical instruction. In addition, some employers may require specialized training or an associate's degree for the most skilled assembly and fabrication jobs. Employment settings include automotive assembly, aircraft engine assembly, and ship building. Service industries such as retail are not capital intensive, and most have the reputation of paying low wages. The operation of service industries depends almost exclusively on employees with relatively common skills. Most retail sales workers receive on-the-job training, which usually lasts a few days to a few months.
Difficulty: Challenging
Skill: Concept
AACSB: Analytical Thinking
LO: 2.1: Discuss the reasons for interindustry wage differentials.

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7) Which factors account for considerable variation in pay between occupations?
A) employment laws
B) interindustry wage differentials
C) relevant labor market
D) knowledge, skills, and abilities
Answer: D
Difficulty: Moderate
Skill: Concept
AACSB: Reflective Thinking
LO: 2.2: Explain the factors that contribute to pay differentials based on occupational characteristics.

8) Which factors account for considerable variation in pay within occupations?
A) employment laws
B) interindustry wage differentials
C) relevant labor market
D) knowledge, skills, and abilities
Answer: D
Difficulty: Easy
Skill: Concept
AACSB: Analytical Thinking
LO: 2.2: Explain the factors that contribute to pay differentials based on occupational characteristics.

9) A common, but mistaken assumption, is that high demand for workers applies only to which kind of jobs?
A) medical doctors
B) low-skilled jobs
C) highly skilled jobs
D) information security analysts
Answer: C
Difficulty: Challenging
Skill: Concept
AACSB: Reflective Thinking
LO: 2.2: Explain the factors that contribute to pay differentials based on occupational characteristics.

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10) What decision did Wal-Mart make due to the difficulty of hiring well-qualified workers, since the unemployment rate has declined?
A) Wal-Mart has increased advertising to inform the public that it is a good place to work.
B) Wal-Mart introduced incentive pay to augment base pay.
C) Wal-Mart decided to offer employees health insurance.
D) Wal-Mart substantially increased its starting pay rate.
Answer: D
Difficulty: Easy
Skill: Concept
AACSB: Analytical Thinking
LO: 2.2: Explain the factors that contribute to pay differentials based on occupational characteristics.

11) Define what an occupation is. Using the example of pharmacists and a pharmacy technician in Chapter 2, explain the rationale for differences in pay within this occupation.
Answer: An occupation is a group of jobs, found at more than one company, in which a common set of tasks is performed or is related in terms of similar objectives, methodologies, materials, products, worker actions, or worker characteristics. File clerk, clerk typist, administrative clerk, staff secretary, and administrative secretary are jobs in the office support occupation.
According to the *Occupational Outlook Handbook*, pharmacists possess advanced training to give them the knowledge and skills to safely fill prescriptions, verifying instructions from physicians on the proper amounts of medication to give to patients, check whether the prescription will interact negatively with other drugs that a patient is taking, affect a patient's existing medical conditions, instruct patients on using a prescribed medicine and inform them about potential side effects. Pharmacy technicians support the work of pharmacists while under their supervision. For example, technicians, take the information needed to fill a prescription from customers or health professionals, measure medication for prescriptions, package and label prescriptions, and organize inventory. Pharmacy technicians do not require advanced education; most of their training takes place on the job. Average annual pay reflects these differences. In 2013, pharmacists earned $116,500 while pharmacy technicians earned $30,840.
Difficulty: Challenging
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.2: Explain the factors that contribute to pay differentials based on occupational characteristics.

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12) Why do pay rate differentials not fully match relative pay differentials?
A) Pay relative differential measures control for the influence of various variables, and pay rate differentials do not.
B) Pay rate differential measures control for the influence of various variables, and relative pay differentials do not.
C) It is difficult to determine the reason for these measures not fully matching.
D) The Fair Labor Standards Act of 1938 (FLSA) minimum wage provision influences relative pay differentials.
Answer: A
Difficulty: Challenging
Skill: Concept
AACSB: Analytical Thinking
LO: 2.3: Summarize the reasons for the occurrence of geographic pay differentials.

13) In San Francisco, the typical pay in the installation, maintenance, and repair occupation exceeded the national average by 17 percent. In Johnstown, Pennsylvania, the rate was 9 percent less than the national average. What do these statistics represent?
A) capital intensity effects
B) pay rate differentials
C) interindustry wage differentials
D) relative pay differentials
Answer: D
Difficulty: Moderate
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.3: Summarize the reasons for the occurrence of geographic pay differentials.

14) When considering cost-of-living differences between locations, which type of costs stand out?
A) housing
B) education
C) health care
D) food and energy
Answer: A
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.3: Summarize the reasons for the occurrence of geographic pay differentials.

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15) In which important way are relative pay and pay rate differentials consistent?
A) magnitude
B) direction
C) absolute value
D) direction and absolute value
Answer: B
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.3: Summarize the reasons for the occurrence of geographic pay differentials.

16) Jing is considering whether to take a job placement in Los Angeles, California or Mobile, Alabama. Before deciding, she is interested in understanding the cost-of-living differences between both places. Jing will consult a(n) _____ comparison calculator to inform her decision.
Answer: cost-of-living
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.3: Summarize the reasons for the occurrence of geographic pay differentials.

17) Antidiscrimination laws have contributed to which of the following?
A) some of the decline in union influence
B) all of the decline in union influence
C) stronger human capital
D) spillover effect
Answer: A
Difficulty: Challenging
Skill: Concept
AACSB: Reflective Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

18) Many nonunion companies offer higher compensation than they would if unions were nonexistent. What is this phenomenon called?
A) progressive compensation
B) the spillover effect
C) concessionary bargaining
D) inter-industry compensation differentials
Answer: B
Difficulty: Easy
Skill: Concept
AACSB: Analytical Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

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19) The decline in union influence can be explained by which of the following reasons?
A) a greater sense of social responsibility in today's society
B) lower educational attainment of the workforce
C) the cooperative nature of the union and management relationship in Germany
D) foreign automobile manufacturers producing higher quality vehicles
Answer: D
Difficulty: Challenging
Skill: Concept
AACSB: Analytical Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

20) Unions seek to secure higher hourly pay rates for workers through the early 1980s. Union member earned how much more than their nonunion counterparts?
A) 10%
B) 30%
C) 25%
D) 8%
Answer: B
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

21) Workers join unions to influence _____-related decisions, especially when they are dissatisfied with job security, wages, benefits, and supervisory practices.
Answer: employment (or, work)
Difficulty: Easy
Skill: Concept
AACSB: Reflective Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

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22) Briefly summarize right-to-work laws as well as the impact on unionization and compensation.
Answer: **Right-to-work laws** prohibit management and unions from entering into agreements requiring union membership as a condition of employment. The prevalence of unions' influence on wages varies tremendously by state based on whether there are right-to-work laws in place. In right-to-work states, union influence is less potent than in other states. Currently, about half of the states have right-to-work laws in place. Historically, most were found in southern states. Increasingly, northern states are adopting these laws. Michigan, which has a substantial population of union employees, recently adopted right-to-work laws. Private sector employees in right-to-work states earned an average of $738 in 2012, which is about 10 percent less than elsewhere. These differences have been one contributing factor that has led many manufacturing businesses to relocate in right-to-work states where employment costs are lower, further weakening unions' influence.
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.4: Discuss the role of labor unions in setting compensation.

23) Which Amendment to the U.S. Constitution gives Congress the power to regulate commerce with foreign nations, individual states, and Indian Tribes?
A) First Amendment
B) Fourteenth Amendment, Section 1
C) Fifth Amendment
D) Article I, Section 8
Answer: D
Difficulty: Challenging
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

24) Which Amendment to the U.S. Constitution made it illegal to restrict the freedom of religion, speech, and press, as well as protect the right of people to peacefully assemble?
A) Article I, Section 8
B) First Amendment
C) Fifth Amendment
D) Fourteenth Amendment, Section 1
Answer: B
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
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25) An employee has a regular hourly rate equal to $12. According to FLSA, how much should her/his employer pay this employee for each additional hour worked beyond the regular 40 hours within a period of 7 consecutive days?
A) $12
B) $14
C) $16
D) $18
Answer: D
Difficulty: Moderate
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

26) An employee has a regular hourly rate equal to $10 and works 45 hours within a period of 7 consecutive days. What is the total amount the employer should pay this employee for 45 work hours?
A) $425
B) $450
C) $475
D) $500
Answer: C
Difficulty: Challenging
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

27) Which of the following examples is NOT considered a compensable work activity?
A) A fireman plays checkers while waiting for an alarm.
B) An employee attends an employer-mandated training.
C) An employee travels from home before the regular workday and returns home at the end of the workday.
D) An employee takes a 15-minute rest during work time.
Answer: C
Difficulty: Moderate
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

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28) Based upon the FLSA child labor provisions, what is the minimum age that a child must be in order to be legally employed?
A) 10
B) 12
C) 14
D) 19
Answer: C
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

29) Which of the following is NOT a protected characteristic by Title VII of the Civil Rights Act of 1964?
A) sexual orientation
B) race
C) national origin
D) religion
Answer: A
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

30) Intentionally treating women less favorably than men based upon their gender would be what form of discrimination?
A) disparate treatment
B) disparate impact
C) disparate causality
D) situational discrimination
Answer: A
Difficulty: Moderate
Skill: Concept
AACSB: Reflective Thinking
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31) Until recently, ACME Manufacturing granted every employee one week of paid vacation each year. The company switched its policy, offering substantially more weeks of paid vacation to employees with high seniority (more than 5 years, in this case). The average seniority of female employees at ACME is 2.5 years and 7.75 years for male employees. Which form of discrimination is this policy at risk of creating?
A) disparate treatment
B) disparate impact
C) disparate causality
D) situational discrimination
Answer: B
Difficulty: Moderate
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

32) This act strengthened the Equal Pay Act of 1963 by requiring employers to show that pay disparities are job related rather than sex-based. This act also prohibits employers from retaliating against employees who share their salary information.
A) The Paycheck Fairness Act
B) The Civil Rights Act of 1964
C) The Age Discrimination in Employment Act of 1967
D) The Pension Protection Act of 2006
Answer: A
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

33) As a result of this law enacted by Congress, employers must now show that employment practices that create disparate impact are a business necessity. This law also made it legal for U.S. citizens working abroad for U.S. companies to file suit.
A) Americans with Disabilities Act of 1990
B) Executive Order 11246
C) The Civil Rights Act of 1991
D) The Older Workers Benefit Protection Act
Answer: C
Difficulty: Moderate
Skill: Concept
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34) Jennifer works as a clerk in a company. The essential function of her job is typing on a keyboard. If she develops crippling arthritis that interferes with her ability to type, which act requires her employer to make reasonable accommodations, such as providing a voice-recognition input device?
A) Family and Medical Leave Act of 1993
B) Americans with Disabilities Act of 1990
C) Davis-Bacon Act of 1931
D) Occupational Safety and Health Act of 1970
Answer: B
Difficulty: Easy
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

35) Construction contractors, working on government contracts valued at more than $2,000, must pay their laborers and mechanics what type of local area-based wage to be in compliance with the Davis-Bacon Act of 1931?
A) minimum wage
B) prevailing wage
C) prevalent wage
D) discretionary wage
Answer: B
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

36) Which law defines hours worked?
A) National Labor Relations Act
B) Davis-Bacon Act
C) Equal Pay Act
D) Portal-to-Portal Act
Answer: D
Difficulty: Easy
Skill: Concept
AACSB: Reflective Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

37) During the _____, which took place in the 1930s, a great number of businesses failed and unemployment soared, forcing the government to institute social welfare programs.
Answer: Great Depression
Difficulty: Easy
Skill: Concept
AACSB: Reflective Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

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38) In general, the FLSA requires that overtime be paid on all hours worked in excess of _____ hours within a period of 7 consecutive days.
Answer: 40
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

39) The _____ of 1963 makes it illegal to pay one sex more than the other for equal work performed.
Answer: Equal Pay Act
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

40) The _____ Amendment allows female employees to charge employers with Title VII violations regarding pay only when the employer has violated the Equal Pay Act of 1963.
Answer: Bennett
Difficulty: Challenging
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

41) The _____ generation was born between roughly 1946 and 1964, and represents a big swell in the American population as the workforce gets progressively older.
Answer: baby boom
Difficulty: Moderate
Skill: Concept
AACSB: Analytical Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

42) Manufacturing is considered to be a(n) _____ intensive industry.
Answer: capital
Difficulty: Easy
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

43) The _____ of 1993 sought to provide employees with job protection in case of a medical emergency.
Answer: Family and Medical Leave Act (FMLA)
Difficulty: Challenging
Skill: Concept
AACSB: Reflective Thinking
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

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44) Congress enacted the Civil Rights Act of 1991 to overturn several U.S. Supreme Court rulings. Identify three cases and discuss their relevance to compensation practice.
Answer: The reversal of the *Atonio v. Wards Cove Packing Co.* court decision is perhaps the most noteworthy. The Supreme Court ruled that plaintiffs (employees) must indicate which employment practice created disparate impact and demonstrate how the employment practice created disparate impact. Since the passage of the Civil Rights Act of 1991, employers must show that the challenged employment practice is a business necessity. Thus, the Civil Rights Act of 1991 shifted the burden of proof from employees to employers.

Two additional sections of the Civil Rights Act of 1991 apply to compensation practice. The first feature pertains to seniority systems. The Civil Rights Act of 1991 overturned the Supreme Court's decision in *Lorance v. AT&T Technologies*, which allowed employees to challenge the use of seniority systems only within 180 days from the system's implementation date. Employees may now file suits claiming discrimination either when the system is implemented or whenever the system negatively affects them.

A second development addresses the geographic scope of federal job discrimination. Prior to the Civil Rights Act of 1991, the U.S. Supreme Court (*Boureslan v. Aramco*) ruled that federal job discrimination laws do not apply to U.S. citizens working for U.S. companies in foreign countries. Since the act's passage, U.S. citizens working overseas may file suit against U.S. businesses for discriminatory employment practices.
Difficulty: Challenging
Skill: Application of Knowledge
AACSB: Application of Knowledge
LO: 2.5: Identify and discuss key employment laws pertinent to compensation practice.

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