

Test Bank for Business and Professional Ethics 9th Brooks

MULTIPLE CHOICE

1 : As a result of the spectacular stock market crash in 1929, the government enacted the Securities Act of 1933, the Securities Act of 1934, and:

- A : The *Glass-Steagall Act*.
- B : The *Investment Advisers Act*.
- C : The *Gramm-Leach-Bliley Act*.
- D : All of the above
- E : Only a and b

Correct Answer : E

2 : In 1984, Edward Freeman published an article on stakeholder theory. Which of the following is not true?

- A : A firm needs the support of its stakeholders to enhance the firm's reputation.
- B : Stakeholder theory took years to mature.
- C : Stakeholder theory is not a useful framework for those interested in governance.
- D : Firms need stakeholders to achieve their corporate objectives.
- E : Stakeholder theory occurred at the same time as the rise in social and corporate activism.

Correct Answer : C

3 : Which of the following is not covered under the Sarbanes-Oxley Act of 2002 (SOX)?

- A : The responsibilities of shareholders
- B : The responsibilities of the board of directors
- C : The responsibilities of management
- D : The responsibilities of auditors
- E : Conflicts of interest

Correct Answer : A

4 : The overall requirement of the Internal Revenue Service Circular 230 is to ensure that tax professionals:

- A : know their clients.
- B : always develop tax plans for their clients.
- C : make tax planning suggestions that, even if they don't have a chance of success, will save the client some money in the short term.
- D : never develop tax shelters.
- E : only be professional accountants.

Correct Answer : A

5 : A collateralized debt obligation (CDO):

- A : is an insurance policy that any investor can purchase.
- B : is a bond that is secured by a portfolio of mortgages.
- C : protects an investor in the event that the issuer of the mortgage defaults on the contract.
- D : acts as a hedge against changes in interest rates.
- E : was outlawed with the passage of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

Correct Answer : B

6 : Which of the following is not a sign of an ethical collapse within an organization, according to

Marianne Jennings, author of *The Seven Signs of Ethical Collapse: How to Spot Moral Meltdowns in Companies?*

- A : Pressure to meet financial goals
- B : Hubris
- C : Nepotism, favoritism, and hiring sycophants
- D : An open and candid organizational culture
- E : A weak board of directors

Correct Answer : D

7 : The U.S. Federal Sentencing Guidelines were introduced in 1991 to:

- A : help judges formulate sentences.
- B : avoid sentences that were too light.
- C : signal potential sentences to executives and directors.
- D : encourage executives and directors to avoid environmental damage.
- E : All of the above

Correct Answer : E

8 : Due diligence programs developed to reduce penalties levied under the U.S. Federal Sentencing Guidelines for environmental harm did not include:

- A : awareness programs for employees.
- B : guidelines for employees.
- C : compliance oversight by corporate officials.
- D : rewards for noncompliance.
- E : encouragement for whistleblowers.

Correct Answer : D

9 : Which was the largest fraud or bankruptcy leading to the crisis of investor confidence in 2002?

- A : Enron
- B : Global Crossing
- C : WorldCom
- D : HIH Insurance
- E : Xerox

Correct Answer : C

10 : The U.S. Internal Revenue Service (IRS) implemented Circular 230 to remedy problems found with regard to the marketing of tax shelters thought to:

- A : have no other purpose than reducing taxes.
- B : have lower than 50% chance of success if challenged by the IRS.
- C : not be in accordance with the client's needs.
- D : create fictitious losses.
- E : All of the above

Correct Answer : E

11 : A Ponzi scheme, such as the one Bernie Madoff ran, is:hard to hide forever.

- A : a card game.
- B : a sound investment scheme.
- C : a scheme to improve the environment.

- D : hard to hide forever.
- E : None of the above

Correct Answer : D

12 : The Carillion plc bankruptcy was important because:

- A : it had major infrastructure construction and operations projects all over the world.
- B : it left tens of thousands of active and pensioned workers without financial support.
- C : it attracted the largest number of short sellers on the London Stock Exchange.
- D : it went bankrupt within six months of receiving a clean audit report.
- E : All of the above

Correct Answer : E

13 : The QuadrigaCX cryptocurrency exchange went bankrupt because:

- A : the founder and operator died.
- B : the founder fired all professional accounting and control personnel.
- C : Canada had no regulatory framework to oversee such exchanges.
- D : the founder dissipated most of the exchange's funds.
- E : cryptocurrency is a very risky investment.

Correct Answer : D

14 : Deutsche Bank closed down a business segment producing roughly 20% of its business because:

- A : it was an unprofitable business segment for banks in general.
- B : the leader of that business segment was disgraced.
- C : there were damning reports from the German regulator.
- D : there was negligent strategic thinking.
- E : the culture in that business segment was beyond remediation.

Correct Answer : E

15 : Large drug and chemical manufacturers have been fined huge sums for harmful products that they marketed aggressively and that:

- A : were seriously harmful to humans.
- B : were priced at absurdly high margins of profit.
- C : involved a very high risk of addiction.
- D : have generated over 2,000 lawsuits.
- E : All of the above

Correct Answer : E

16 : At least two major accounting bodies have begun to reimage the accounting profession because of the following.

- A : A lack of basic accounting knowledge
- B : Faulty basic auditing practices
- C : Poor risk assessment practices
- D : A lack of competency with modern tools
- E : Three of the above

Correct Answer : E

MULTIPLE ANSWER

17 : Which of the following financial crises or fiascos were not related to the subprime lending crisis?

- A : Bear Stearns
- B : Lehman Brothers
- C : Bernie Madoff
- D : AIG
- E : Galleon Group

Correct Answer : E

18 : The crisis in investor confidence in 2002 was caused by:

- A : a lack of integrity of business leaders.
- B : the manipulation of financial results.
- C : the boards of directors that did not provide proper oversight.
- D : the findings of alert auditors.
- E : All of the above

Correct Answer : E

19 : SOX contained sections with regard to the auditors and/or audit committee that were designed to:

- A : increase the independence of management.
- B : increase the financial literacy of audit committee members.
- C : limit the conflicts of interest related to the services an auditor can perform.
- D : restrict the ability of auditors to serve on the audit committee.
- E : All of the above

Correct Answer : E

20 : Why didn't investors caught in the subprime lending crisis take earlier note of the risks inherent in investments known as collateralized debt obligations (CDOs)?

- A : Investors were driven by greed and the desire for high returns.
- B : Banks were selling and buying them.
- C : The risks were buried in complex, jargon-oriented documents.
- D : The risks were diversified over many mortgages.
- E : Only three of the above

Correct Answer : E

21 : The U.S. government created the Troubled Asset Relief Program (TARP) to:

- A : bail out investors in U.S. financial firms and institutions.
- B : avoid a worldwide financial crisis.
- C : stimulate the U.S. economy.
- D : resolve the financial crisis in Iceland.
- E : make a profit on the ultimate sale assets bought at a low value.

Correct Answer : E

22 : The Dodd-Frank Wall Street Reform and Consumer Protection Act was created after the subprime lending fiasco to protect consumers from deceptive practices related to:

- A : mortgages.
- B : credit cards.

- C : cars.
- D : financial derivatives.
- E : All of the above

Correct Answer : E

23 : Ralph Nader contributed to the lack of credibility of corporations by exposing:

- A : their excessive bonus schemes.
- B : their greed.
- C : their poor car safety.
- D : their poor environmental record.
- E : the “seller beware” attitude of toy manufacturers.

Correct Answer : E

24 : Freddie Mac and Fannie Mae:

- A : were created to support the U.S. housing market.
- B : stimulated the U.S. housing bubble.
- C : provided bailout funds to the U.S. government.
- D : acted in the best interests of consumers.
- E : acted in the best interests of lenders.

Correct Answer : E

25 : Who among the following demonstrated extraordinary hubris (the arrogant belief that rules are for other people but not for us)?

- A : Kenneth Lay
- B : Bernie Ebbers
- C : Arthur Andersen
- D : Scott Sullivan
- E : All of the above

Correct Answer : E