# Test Bank for Compensation 2026 Release 1st Gerhart

Corret Answers are located at the end of each chapter.

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.**

1) When unemployment increases, the proportion of the population covered by health insurance decreases.
   - ⊙ true
   - ⊙ false

2) The degree to which pay influences individual and aggregate motivation among employees is called a sorting effect.
   - ⊙ true
   - ⊙ false

3) When looking at the total CEO compensation of U.S. public companies, salary was the largest, most significant compensation component.
   - ⊙ true
   - ⊙ false

4) Commissions are an example of incentives.
   - ⊙ true
   - ⊙ false

5) Most U.S. firms use merit pay increases.
   - ⊙ true
   - ⊙ false

6) Base wage reflects both the value of the work and individual employee skills and experience.
   - ⊙ true
   - ⊙ false

7) Pension and health benefits are a very large component of total compensation for many large companies such as American Airlines and GM.

- ⊙ true
- ⊙ false

8) Merit bonuses are paid in a lump sum and do not become a permanent part of base salary.

- ⊙ true
- ⊙ false

9) Procedural fairness suggests that the way a pay decision is made is of less importance to employees than the results of the decision.

- ⊙ true
- ⊙ false

10) If the objective is to increase customer satisfaction, then incentive programs and merit pay might be used to pay for performance.

- ⊙ true
- ⊙ false

11) Objectives guide the design of pay systems and provide standards for evaluating their effectiveness.

- ⊙ true
- ⊙ false

12) Even if federal compensation laws change, it is unnecessary to change pay systems to ensure continued compliance.

- ⊙ true
- ⊙ false

13) Internal alignment pertains to the pay rates both for employees doing equal work and for those doing dissimilar work.

- ⊙ true
- ⊙ false

14) A manager can use one of four proven pay techniques that tie basic policies to the pay objectives.

- ◎ true
- ◎ false

15) The best way to establish causation when performing research is to find multiple correlations between variables.

- ◎ true
- ◎ false

16) Fairness is affected through employees' comparisons of their pay to the pay of others in the organization.

- ◎ true
- ◎ false

17) Consultant surveys are often presented as studies that reveal cause and effect.

- ◎ true
- ◎ false

18) In Japan, the traditional characters for the word "compensation" are based on the symbols for logs and water, suggesting that compensation provides the necessities in life.

- ◎ true
- ◎ false

19) The relationship between variables is most often addressed through the use of statistical analysis.

- ◎ true
- ◎ false

20) The $R^2$ , which is an output from a regression analysis, is different from correlation in that it tells us what percentage of the variation is accounted for by the variables we are using to predict or explain.

- ◎ true
- ◎ false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

21) Total CEO annual compensation at S&P 500 companies is roughly $17.1 million. At sixty percent of that total ($10.2 million), which compensation component comprises the majority of that total compensation amount?

A) Stock option awards
B) Salary
C) Stock grants
D) Bonuses

22) The "say on pay" and clawback provisions are included in which of the following federal laws?

A) The Dodd-Frank Wall Street Reform and Consumer Protection Act
B) The Affordable Care Act of 2010
C) The Fair Labor Standards Act (FLSA)
D) The Cost-of-Living Act (COLA)

23) One of the reasons why the great majority of the uninsured in the United States are from working families is that

A) many larger employers do not offer health insurance as it does not guarantee an increase in productivity levels.
B) health insurance is costlier for larger employers.
C) many small employers are much less likely than larger employers to offer health insurance to their employees.
D) most workers decline health insurance when it is offered by their employers.

24) Which of the following *best* describes the *incentive effect*?

A) the effect pay can have on the composition of the workforce
B) the degree to which pay influences individual and aggregate motivation among employees at any point in time
C) the nonquantifiable returns employees get from employment
D) the capability to engage in a specific behavior

25) Which of these total returns is an example of a relational return?

A) cost-of-living adjustments
B) job title status
C) medical insurance
D) pensions

26) Which of the following is given as an increment to base pay in recognition of past work behavior?

A) Merit bonuses
B) Relational returns
C) Merit increases
D) A short-term incentive

27) GreenRain Corporation faces an increase in its employee turnover rate. The CEO calls for a board meeting with the senior executives to discuss the issue. Who among the following suggests increasing the relational returns that employees receive to reduce the turnover rate at GreenRain?

A) Tom, who suggests increasing the decision-making authorities given to the employees to make work more challenging
B) Deena, who suggests providing more work/life balance to the employees by increasing the number of paid leaves
C) Syed, who suggests increasing the medical insurance coverage offered to the employees
D) Liam, who suggests increasing merit bonuses

28) Which of the following statements concerning cash compensation and the Fair Labor Standards Act is true?

A) Nonexempt employees have their pay calculated at an hourly wage.
B) Exempt workers receive overtime pay.
C) Managers and professionals usually fit the category of nonexempt worker.
D) Labeling all base pay as "salary" means the employer does not have to follow the FLSA regulations.

29) Which of the following is true of incentives?

A) They are determined after past performance is evaluated.
B) They are linked to subjective performance measures.
C) They permanently increase labor costs.
D) They are re-earned each pay period.

30) Which of the following companies is taking efforts to improve the work/life balance of its employees?

A) MH Corporation, which increases the number of paid holidays given to its senior employees
B) Kay Corporation, which increases the transport allowance for its employees by 10 percent
C) Haywire Corporation, which allows its employees to buy company stocks at a reduced price of $30 per share
D) Halo Corporation, which increases the variable pay of its employees

31) Variable pay may also be called

A) relational returns.
B) merit increases.
C) COLAs.
D) incentives.

32) What does economic output (GDP) per employed person measure?

A) average annual earnings per worker
B) national productivity
C) average household income
D) the growth of wealth

33) Unlike merit increases, merit bonuses are:

A) distributed in every quarter.
B) based on duration of service.
C) paid in the form of a lump sum.
D) included in the base salary.

34) Robert, the CEO of GameTrack Corporation, wants to restructure its pay plan without increasing labor costs in the long run. He is most likely to achieve this, while retaining his top employees, by:

A) increasing base pay and decreasing variable pay
B) increasing incentive pay and decreasing base pay.
C) hiring more employees and reducing marginal product output requirements.
D) providing across-the-board increases on a monthly basis.

35) Incentives do not permanently increase labor costs because:

A) they rely on a subjective rating of performance.
B) they are given based on the past performances of employees.
C) they increase the base wage.
D) they are one-time payments.

36) A difference between incentives and merit increases is that incentives

A) do not increase the base wage, whereas merit increases increase the base wage.
B) cannot be tied to the performance of an individual, whereas merit increases can be tied to the performance of an individual.
C) rely on a subjective measure of performance, whereas merit increases rely on an objective measure of performance.
D) are relational returns, whereas merit increases are part of the total compensation.

37) Which of the following is an organizational objective, and *not* a compensation strategy, of the pay model?

A) ethics
B) pay structure
C) benefits
D) management

38) Which of the following is a policy, and NOT an objective, of the pay model?

A) Ethics
B) Competitiveness
C) Efficiency
D) Fairness

39) Which of the following are defined as comparisons among individuals doing the same job for the same organization?

A) Network of returns
B) Compliance
C) Employee contributions
D) Relational returns

40) __________ refers to pay relationships among jobs or skill levels inside a single organization.

A) External competitiveness
B) Internal alignment
C) Compliance
D) Merit guidelines

41) In the context of pay relationships, which of the following is illegal in the United States?

A) Paying on the basis of the nature of jobs
B) Paying on the basis of pay comparisons with competitors
C) Paying on the basis of one's age
D) Paying on the basis of one's skill level

42) Which term is defined as the relative value (differentials) assigned to different jobs?

A) internal alignment
B) internal incentives
C) internal equity
D) internal structure

43) Compensation policy choices that affect the pay level relative to other companies are most closely associated with the __________ aspect of the pay model.

A) internal alignment
B) external competitiveness
C) employee contribution
D) pay system management

44) The decisions to implement pay for performance, flat rate pay, and profit sharing are examples of __________ policy decisions.

A) internal alignment
B) efficiency
C) employee contribution
D) management

45) According to the text, which of the following decisions should be made jointly?

A) Internal alignment and management decisions
B) External competitiveness and employee contribution decisions
C) Employee contribution and internal alignment decisions
D) Management and external competitiveness decisions

46) Which of the following policy decisions directly affects employees' attitudes and work behaviors?

A) Employee contributions
B) Internal alignment
C) External competitiveness
D) Management

47) You are an HR manager, and your boss has told you to find the best way to raise job performance. After some research, you find that __________ have the greatest instrumental value.

A) job responsibilities
B) training and skill development programs
C) goal setting and job enrichment
D) monetary incentives

48) In a study, causation can be best established by:

A) considering a single explanation.
B) evaluating the methodologies used.
C) analyzing the scope of the study.
D) accounting for competing

49) A measure of how changes in one variable are related to changes in another variable is the:

A) standard deviation.
B) analysis of variance.
C) correlation coefficient.
D) mean deviation.

50) ___________ refers to the process used to make pay decisions.

A) Procedural fairness
B) Relational return
C) Regression analysis
D) Internal alignment

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.**

51) Describe compensation from the employee's perspective.

52) What are the different ways in which pay can influence employee motivation and behavior?

53) Describe the various returns received from work.

54) List the three elements of the pay model.

55) Explain the basic compensation objectives of pay systems.

# Answer Key

Test name: Chapter 01

1) TRUE
2) FALSE
3) FALSE
4) TRUE
5) TRUE
6) FALSE
7) TRUE
8) TRUE
9) FALSE
10) TRUE
11) TRUE
12) FALSE
13) TRUE
14) FALSE
15) FALSE
16) TRUE
17) TRUE
18) FALSE
19) TRUE
20) FALSE
21) C
22) A
23) C
24) B
25) B
26) C
27) A
28) A
29) D
30) A
31) D
32) B
33) C
34) A
35) D
36) A
37) A

38) B
39) C
40) B
41) C
42) D
43) B
44) C
45) B
46) A
47) D
48) D
49) C
50) A
51) Short Answer
52) Short Answer
53) Short Answer
54) Short Answer
55) Short Answer