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Chapter 02 Business Ethics

TRUEFALSE

1. Ethics can be defined broadly as the study of what is good or right for human beings.

(A) True

(B) False

Answer : (A)

2. Like legal analyses, analyses of ethics have a central authority and follow clear-cut, universal standards.

(A) True

(B) False

Answer : (B)

3. Under the stakeholder model, a derivative of the social contract theory, a corporation has fiduciary responsibilities to more than just its stockholders.

(A) True

(B) False

Answer : (A)

4. Kohlberg believed that all people reach the third stage of moral development by adulthood.

(A) True

(B) False

Answer : (B)

5. An ethical relativist looks to a central authority, such as the Bible, to guide her in ethical decision making.

(A) True

(B) False

Answer : (B)

6. It is possible for legal acts to be immoral.

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(A) True

(B) False

Answer : (A)

7. Situational ethics, unlike ethical relativism, judges a person's ethics, but first looks at the decision or act from the perspective of the actor.

(A) True

(B) False

Answer : (A)

8. Jeremy Bentham was a proponent of utilitarianism.

(A) True

(B) False

Answer : (A)

9. A person who believes in the situational ethics theory would agree that precise guidelines for business behavior must be developed and adhered to by business professionals.

(A) True

(B) False

Answer : (B)

10. A leading proponent of the utilitarian approach to ethics was the eighteenth century philosopher Immanuel Kant.

(A) True

(B) False

Answer : (B)

11. Deontologists are criticized for rigidity and excessive formalism.

(A) True

(B) False

Answer : (A)

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12. Intuitionism holds that rational persons possess inherent powers to assess the correctness of actions.

(A) True

(B) False

Answer : (A)

13. Kant's philosophy rejects the idea that the end justifies the means.

(A) True

(B) False

Answer : (A)

14. Harvard philosopher John Rawls stressed liberty as the most important obligation owed by a society to its members.

(A) True

(B) False

Answer : (B)

15. To a libertarian, it is not unjust for some people to accumulate fortunes while others live in poverty.

(A) True

(B) False

Answer : (A)

16. Although corporations are not persons but artificial entities created by the state, it is clear that they can and should be held morally accountable.

(A) True

(B) False

Answer : (B)

17. Rule utilitarianism supports rules that, on balance, produce the greatest good.

(A) True

(B) False

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Answer : (A)

18. According to Milton Friedman, the social obligation of a corporation is to return as much money as possible to its shareholders.

(A) True

(B) False

Answer : (A)

19. In some respects, Kant's categorical imperative is a variation of the Golden Rule.

(A) True

(B) False

Answer : (A)

20. The essential characteristic of ethical fundamentalism is a reliance upon a central repository of wisdom.

(A) True

(B) False

Answer : (A)

21. To a libertarian, it is unjust for a society to take wealth earned by one citizen and to distribute it to others who did not earn it.

(A) True

(B) False

Answer : (A)

22. What is unjust to a social egalitarian will also be unjust to a libertarian.

(A) True

(B) False

Answer : (B)

23. From a Kantian perspective, for an action to be moral, it must be possible for it to be made into a universal law and it must be respectful of the autonomy and rationality of all human beings.

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(A) True

(B) False

Answer : (A)

24. Under a Kantian approach to ethics, a person should not lie to colleagues unless that person supports the right of all colleagues to lie to one another.

(A) True

(B) False

Answer : (A)

25. Harvard philosopher, Robert Nozick, stressed liberty, not justice, as the most important obligation that society owes its members.

(A) True

(B) False

Answer : (A)

26. Kant's approach, like that of ethical fundamentalists, asserts that universal laws stem from the direct pronouncements of God.

(A) True

(B) False

Answer : (B)

27. Bill would like to propose to the board of directors of Bizmarc, Inc., that the corporation distribute one percent of its pre-tax yearly income to feed the poor. To Milton Friedman and others, Bill's proposal might be considered unethical, because it violates the purpose for which the corporation was established.

(A) True

(B) False

Answer : (A)

28. Corporations are subject to a higher standard of accountability than are public bodies.

(A) True

(B) False

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Answer : (B)

29. Philosophers have found that the most effective way to develop dependable and universal methods for making ethical judgments is to fashion *a priori* guidelines.

(A) True

(B) False

Answer : (B)

30. The "Television Test" is a test that is generally accepted by adherents of intuitionism.

(A) True

(B) False

Answer : (A)

31. Deontological theories assess good and evil in terms of the consequences of actions.

(A) True

(B) False

Answer : (B)

32. Utilitarian notions underlie cost-benefit analysis.

(A) True

(B) False

Answer : (A)

33. Ethical issues in business settings include corporate governance, whistle-blowing, shareholder voting, and management's duties to shareholders.

(A) True

(B) False

Answer : (A)

34. Ethical relativism holds that when any two individuals or cultures differ regarding the morality of a particular issue or action, they are both correct because morality is relative.

(A) True

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(B) False

Answer : (A)

35. Psychologist Lawrence Kohlberg observed that people progress through sequential stages of moral development according to the two major variables of age and reasoning.

(A) True

(B) False

Answer : (A)

MULTICHOICE

36. If a Middle Eastern culture and the American culture differ as to the morality of a particular action, under ethical relativism:

(A) both cultures are correct.

(B) the action should be assessed to determine whether the action produces more net pleasure compared with net pain.

(C) a cost-benefit analysis should be conducted to determine the relative economic efficiency of the action.

(D) the action should be viewed through a "veil of ignorance" to determine whether it is ethical.

Answer : (A)

37. Which of the following best describes the libertarian social ethics theory?

(A) Libertarians stress market outcomes as the basis for distributing society's rewards.

(B) Libertarians encourage social control over all people in order to design an equitable society.

(C) Libertarians believe it is just for society to take wealth earned by some citizens and distribute it to those who did not directly earn it.

(D) The fact that some people end up with fortunes while others are poor proves only that absolute power corrupts absolutely.

Answer : (A)

38. True cost-benefit analysis as a social theory,

(A) only measures monetary gains and losses in making business decisions.

(B) compares direct and indirect costs and benefits of program alternatives for meeting a specific

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goal.

(C) is another theory that judges persons' actions by what those persons believe is right for themselves.

(D) emphasizes justice and a central moral authority.

Answer : (B)

39. The ethical theory that underlies cost-benefit analysis is:

(A) libertarianism.

(B) deontology.

(C) utilitarianism.

(D) ethical relativism.

Answer : (C)

40. Which of the following is not a corporate characteristic?

(A) A relatively small number of corporations own the great bulk of U.S. industrial wealth.

(B) The great majority of publicly held corporations have audit committees consisting entirely of outside directors.

(C) The board of directors of the majority of publicly held U.S. corporations consist mainly or entirely of inside directors.

(D) Corporate governance requirements on publicly held corporations have been imposed by federal legislation.

Answer : (C)

41. An ethical decision-making approach that relies on a central authority or set of rules, such as the Koran or the Bible, is:

(A) ethical fundamentalism.

(B) ethical relativism.

(C) rule utilitarianism.

(D) act utilitarianism.

Answer : (A)

42. The ethical decision making approach that views ethical decisions from the actor's perspective

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and then judges whether the decisions were ethical is:

(A) ethical fundamentalism.

(B) ethical relativism.

(C) situational ethics.

(D) act utilitarianism.

Answer : (C)

43. Which of the following presents ethical dimensions for a business?

(A) Possible pollution of the physical environment.

(B) Conflicts among differing cultures and value systems in international transactions.

(C) Compensation and working conditions of employees.

(D) All of these.

Answer : (D)

44. The ethical theory of intuitionism proposes that:

(A) the power of an individual to assess the rightness or wrongness of decisions is as basic to human beings as the instinct for survival.

(B) market outcomes should be the basis for distributing goods.

(C) the "veil of ignorance" should be developed to consider the needs and rights of all society's members.

(D) society should stress equality of opportunity, not results.

Answer : (A)

45. In what way or ways are situational ethics and ethical relativism similar?

(A) They both look to a central authority or set of rules to guide ethical decision-making.

(B) They both assess each separate act according to whether it maximizes pleasure over pain.

(C) They both judge actions from the perspective of the actor.

(D) All of these.

Answer : (C)

46. To a _____ , whether telling a lie in a given instance would produce greater pleasure than

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telling the truth is less important than deciding if a general practice of lying would maximize society's pleasure.

(A) deontologist

(B) rule utilitarian

(C) ethical fundamentalist

(D) ethical relativist

Answer : (B)

47. How does Immanuel Kant's approach to ethical decision-making differ from that of an ethical fundamentalist?

(A) Kant's approach is premised on the rationality of human beings and not on principles handed down from above.

(B) Kant's approach stresses liberty and not justice.

(C) Kant's approach judges society in moral terms by how it distributes goods and services.

(D) Kant's approach assesses each separate act according to whether it maximizes pleasure over pain.

Answer : (A)

48. Critics of business offer all but which of the following arguments to support their contention that business must help resolve societal problems?

(A) Social contract.

(B) The more responsibly companies act, the less government must regulate them.

(C) Involvement in social causes makes good business sense.

(D) Expertise.

Answer : (D)

49. Under which ethical system would it be ethical to compel a few citizens to undergo painful or fatal medical tests in order to develop cures for the rest of the world?

(A) Utilitarianism.

(B) Ethical fundamentalism.

(C) Distributive justice.

(D) Libertarianism.

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Answer : (A)

50. The definition of business ethics includes which of the following points?

(A) It is a branch of applied ethics.

(B) It is fully codified in federal statutes.

(C) It has a central authority and universal standards.

(D) It is based on maximizing profits for a business.

Answer : (A)

51. A major criticism of utilitarianism as an ethical theory is that:

(A) it is rigid.

(B) in some important instances it ignores justice.

(C) it results in the judgment that a person's actions are always moral for that person and therefore exempt from punishment.

(D) it is excessively formal.

Answer : (B)

52. Which arguments oppose business involvement in socially responsible activities?

(A) Lack of corporate focus on profitability.

(B) Unfairness to company employees and shareholders.

(C) Lack of accountability.

(D) All of these.

Answer : (D)

53. Nineteen-year-old Martin was raised in a good, Christian home and attended parochial school through eighth grade. Martin is a good student and citizen who conforms to the expectations of his church, family, and peers. He does so because he loves his family and church, is loyal to them, and trusts them. Under Kohlberg's schematic analysis, Martin is most likely at what stage of moral development?

(A) Pre-conventional.

(B) Conventional.

(C) Post-conventional.

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(D) Adult.

Answer : (B)

54. Which of the following is a common criticism of deontological ethical theories?

(A) They are excessively pragmatic.

(B) They are rigid and excessively formal.

(C) They only consider actions by their motives.

(D) They fail to consider universal principles.

Answer : (B)

55. Which of the following is a common criticism of ethical relativism?

(A) It promotes open-mindedness and tolerance.

(B) It assumes that a person's actions are always correct for that person, but if that is true, then all behavior is, by definition, moral.

(C) It is rigid and excessively formal.

(D) It is too judgmental.

Answer : (B)

56. The type of moral equality espoused by John Rawls is:

(A) freedom to do what one wishes.

(B) social and material equality.

(C) freedom from government regulation.

(D) equality of opportunity.

Answer : (D)

57. An auto designer chooses to devote his efforts to design an automobile that is the safest vehicle possible. He does so because he wishes to save lives and prevent disabling injuries. He believes he and his employer have a duty to provide the public with the safest possible vehicle. The designer's approach to ethical decision-making is best characterized as:

(A) utilitarian.

(B) deontological.

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(C) ethically relative.

(D) ethically fundamental.

Answer : (B)

58. Social egalitarians believe:

(A) the ends justifies the means.

(B) society should provide each person with equal amounts of goods and services regardless of the contribution each makes to increase society's wealth.

(C) society should divide wealth based on each person's contribution.

(D) that if persons wish to act morally, they should emulate those in the society who always seem to do the right thing.

Answer : (B)

59. Adam Smith, in *The Wealth of Nations*, said the capitalistic system was composed of six institutions, which include all but which of the following?

(A) Economic motivation.

(B) Free enterprise.

(C) Labor.

(D) Limited government.

Answer : (C)

60. A factor demanding the ethical and social responsibility of business is:

(A) the "invisible hand" of competition.

(B) the sheer size and power of individual corporations.

(C) the fact that self-regulation has been effective in achieving social goals.

(D) great amounts of wealth and economic power are controlled by a small number of shareholders who own and exercise tight control over a large number of corporations.

Answer : (B)

ESSAY

61. Analyze whether telling a lie is unethical in terms of each of the following ethical theories:

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a. The deontological approach.
b. Utilitarianism.
c. Intuitionism and the "Television Test."
d. Ethical relativism.
e. Ethical fundamentalism.

Graders Info :

Answers will vary but should generally consider the following items in analyzing whether telling a lie is unethical.

a. Immanuel Kant was a deontological theorist. Deontological theories in general hold that certain underlying principles are right or wrong irrespective of any pleasure or pain calculations. Deontologists believe that actions cannot be measured simply by their results but must be judged by the means and motives as well. To Kant, for an action to be moral, it must: (1) be possible for it to be made into a universal law to be applied consistently; and (2) respect the autonomy and rationality of all human beings. It must not treat them as an expedient. Under his theory, it would be immoral to lie to a colleague if one could not support the right of all colleagues to lie to one another.

b. Utilitarianism assesses good and evil in terms of the consequences of the action. Act utilitarianism assesses each separate act according to whether it maximizes pleasure over pain. Under act utilitarianism, if telling a lie in a particular situation will produce more overall pleasure than pain, then it is ethical to lie. Rule utilitarianism holds that general rules must be established and followed even though in some instances, following rules may produce less overall pleasure than not following them. Whether telling a lie in a given instance would produce greater pleasure than telling the truth is less important to the rule utilitarian than deciding if a general practice of lying would maximize society's pleasure. If lying would maximize society's pleasure in general, then it is ethical, but if it would not maximize society's general pleasure, it is not.

c. Intuitionism holds that a rational person possesses inherent powers to assess the correctness of actions. It is possible to refine one's sense of ethics by emulating the behavior of those individuals who always seem to know what the right choice is in any given situation and who always seem to do the right thing. The "Television Test" holds that a decision is appropriate if the person making it would be comfortable with the decision if it were broadcast on national television for all to witness. Thus, a lie would be unethical if the public believed it to be unethical under the circumstances.

d. Ethical relativism asserts that actions must be judged by what individuals feel is right or wrong for themselves. It holds that morality is relative. In most situations, ethical relativism would hold that lying is ethical if an individual feels it is right.

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e. Ethical fundamentalism looks to a central authority or set of rules to guide its adherents in ethical decision-making. The central authority may be the Bible, the Koran, or prophets or documents. Whether lying is unethical would depend upon the particular source of authority used. Whatever that source is would absolutely determine whether or under what circumstances lying is ethical. Many ethical fundamentalists believe that lying is always unethical. Others believe it is unethical in most, but not all, circumstances. Whatever rule the central authority states would be absolutely followed by an ethical fundamentalist.

62. Neal is the young, likable, optimistic, and generous son of a prominent public official. He has a master's degree in business and is the business partner of Ken and Bill in an oil drilling and exploration business. Neal also serves as a director on the board of the Bonanza Savings and Loan Association. While serving on the Bonanza Board, Neal votes to approve major loans to Ken and Bill without disclosing to the other directors that he is a business partner of Ken and Bill. Neal also personally arranges for a $900,000 line of credit from Bonanza for an oil drilling venture in which he is a partner with Ken. The drilling venture is unsuccessful and Ken and Bill both default on their loans to Bonanza, which then causes the S & L to become insolvent. Federal banking officials seize Bonanza and liquidate its assets to pay creditors and depositors. Because Bonanza is federally insured, tax money is also used to pay off depositors whose deposits are insured under federal programs. Bonanza shareholders lose their investment money. Was Neal's conduct as a director of Bonanza ethical? Analyze his conduct in light of the following ethical theories:

a. Intuitionism and the "Television Test."
b. Milton Friedman's ideas on corporate governance.
c. Deontological theories.
d. Rule utilitarianism.
e. Ethical relativism.

Graders Info :

Student answers will vary greatly but should consider factors such as the following in their analysis.

a. Intuitionism holds that a rational person possesses inherent powers to assess the correctness of actions, and that an individual may refine and strengthen these powers by emulating the behavior of "good persons" who always seem to know the right choice in any given situation. Although Neal is not a "bad" person, he should have sought the advice of more experienced directors and of those who over the years have established codes of conduct for corporate directors. The "Television Test" holds that a decision is appropriate if the person making it would be comfortable with the decision if it were broadcast on national television for all to witness. Neal's actions would likely fail this test. He should have disclosed his business ties with Bill and Ken to the other directors prior to the board's discussion of the loans and to his acts on behalf of his business partners. After disclosing his business ties, Neal should then have refrained from voting on issues involving his business partners, especially when there was a chance he might personally benefit from any loans given to the two men.

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b. Milton Friedman argues that businesses are artificial entities established to permit people to engage in profit-making activities. The social obligation of a corporation is to make money for its shareholders. Under this analysis, Neal's obligation as a director is to make Bonanza as profitable as possible in order to make money for its shareholders. Neal fails this test, because his actions were intended to make money for himself and his own business partners rather than for the Bonanza shareholders.

c. Deontological theories hold that actions cannot be measured simply by their results but must also be judged by their means and motives as well. This type of analysis would have to analyze the motives behind Neal's failure to disclose his business ties to Ken and Bill and the reasons for his voting to give them loans. These motives are likely to involve some intent to benefit himself as well as his business partners more than they are to benefit the shareholders and depositors of Bonanza. Kant believed that for an action to be moral, it must (1) be possible for it to be made a universal law to be applied consistently; and (2) be respectful of the autonomy and rationality of all human beings and not treat them as an expedient. This type of analysis should consider Neal's actions in terms of his duties to the shareholders and depositors of Bonanza as well as to the taxpayers of the nation and to his business partners. Neal's actions would likely be unethical under this type of analysis.

d. Utilitarianism assesses actions in terms of the consequences of those actions. Rule utilitarianism holds that general rules must be established and followed even though, in some instances, following the rules may produce less overall pleasure than not following them. It supports rules that on balance produce the greatest satisfaction. That type of analysis makes Neal's actions unacceptable, because it caused more overall pain and was calculated to lessen rather than to increase society's wealth.

e. Ethical relativism asserts that actions must be judged by what individuals feel is right or wrong for themselves. It is difficult to judge Neal's actions using this system, because if a person's actions are always correct for that person, then his behavior is, by definition, moral and no one can criticize it. Ethical relativism passes no judgment on what the person did other than to determine that the person truly believed the decision was right for him. This type of analysis would make Neal's actions ethical if he thought they were right for him.

63. Compare the social ethics theories of distributive justice, libertarianism, and social egalitarianism. How are they alike? How are they different? Explain your answer.

Graders Info :

Social ethics theories assert that special obligations arise from the social nature of human beings. John Rawls is a leading proponent of distributive justice. His theory seeks to analyze the type of society that people in a "natural state" would establish if they could not determine in advance whether they would be talented, rich, healthy or ambitious relative to other members of society. Rawls stresses "equality of opportunity." His theory is premised on justice and the belief that everyone is entitled to a fair share in society, which all must work to guarantee. Libertarians stress market outcomes as the basis for distributing society's rewards. Adherents such as Robert Nozick stress liberty rather than justice as the most important obligation that society owes its members. It is not unjust to a libertarian that some people become wealthy while others have little or nothing.

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They oppose interference by society in their lives. To a libertarian, it is unjust for society to take the wealth of one citizen in order to distribute it to others who did not earn it. In contrast, social egalitarians believe society should provide all persons with equal amounts of goods and services regardless of the contribution each makes to increase society's wealth.

64. Discuss each of the following ethical theories with regard to whether you accept or reject them for your own actions and decisions.

a. Intuitionism and the "Television Test."
b. Rule utilitarianism.
c. Ethical relativism.
d. Ethical fundamentalism.
e. The deontological approach.
f. Milton Friedman's ideas on corporate governance.

Graders Info :

Of course, students' answers will vary. Each student should include a general discussion of each of the ethical theories' salient points. More importantly, the students should explore their own ethical approach. They could be encouraged to use examples to illustrate their points. The students should be explicit in the reasoning as to why they accept one theory and reject another. Students should be encouraged to not study these issues in a vacuum but to apply what they are learning to their own lives.

65. Discuss which of the social ethics theories listed below you most agree with and why. Discuss your reasons for disagreeing with the others.

a. Distributive justice
b. Social egalitarian
c. Libertarianism

Graders Info :

Students' answers will vary. The goal of this question is to have the students apply what they are learning. The students can be encouraged to use examples from recent events as reported by the media to illustrate their viewpoint. The students' discussion should be accurate as to their description of the theory.

a. Distributive justice considers the needs and rights of all its members. Harvard philosopher, John Rawls, proposed this theory. Such a society would not be strictly egalitarian. Equality of opportunity would be stressed. (1) This theory appeals to me because... or (2) This theory does not make sense to me because...

b. Social egalitarians believe that society should provide all persons with equal amounts of goods and services without regard to the contribution each person makes to society. (1) This theory appeals to me because... (2) This theory does not appeal to me because...

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c. Libertarians focus on the marketplace as a determiner of what is best for society. Libertarians believe in dealing honestly but believe in "the survival of the fittest" as determined by the marketplace. (1) This theory appeals to me because... (2) This theory does not appeal to me because...

66. Through his observation of human behavior, psychologist Lawrence Kohlberg developed a model of moral development. Describe the stages of moral development that were studied and developed by Kohlberg and the relevance of this model for ethical business behavior.

Graders Info :

Kohlberg's first stage of moral development is the *preconventional level*. At this level a person would be acting out of fear of punishment or pleasure of reward. In the business setting, people would act ethically only out of fear that they would get caught and punished if they did not act ethically. The ramification of this stage of moral development in the adult businessperson is that if there was no realistic fear of being caught, unethical behavior might become common. The person at this stage does not understand why their behavior is immoral or moral.
Kohlberg's second stage of moral development is the *conventional level*. People at this level conform their behavior to the expectations of the groups to which they belong. The implication of this stage in the business arena is that if the group deems the action to be ethical, then the individual in this stage will follow the group without an independent evaluation of the situation. The example of Nazi Germany directly prior to and during WWII is a chilling one. This is especially true since Kohlberg believes that most adults operate at this level.
Kohlberg's third stage of moral development is the *postconventional level*. At this level the individual understands the reasoning behind a particular moral principle. There is a voluntary acceptance of the principles; moral principles are not external to the individual. The implications of this in business are that the individual would make independent judgments of particular ethical dilemmas. Corporate decisions would not necessarily be followed simply out of a sense of loyalty or group expectation.

67. Discuss the arguments for and against businesses' involvement in socially responsible activities.

Graders Info :

The prime responsibility of business is to make a reasonable return on its investment by producing a quality product at a reasonable price. Businesses are not to be charitable institutions. However, those who favor social responsibility of business use the arguments of a social contract, less government regulation, and long-run profits. The social contract argument is that, because society allows for the creation of corporations and gives them special rights, including a grant of limited liability, corporations owe a responsibility to society. The government regulation argument is that, by taking a more proactive role in addressing society's problems, corporations create a climate of trust and respect that has the effect of reducing government regulation. The long-run profit argument is that corporate involvement in social causes creates goodwill, which just makes good business sense.
Those who do not favor corporate involvement in socially responsible activities use the arguments of profitability, unfairness, accountability, and expertise. The argument regarding profitability is that, because corporations are artificial entities established for profit-making activities, their only social

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obligation should be to return as much money as possible to shareholders. The unfairness argument is that whenever corporations engage in social activities, they divert funds rightfully belonging to shareholders and/or employees to unrelated third parties. Corporations are private institutions that are subject to a lower standard of accountability than are public bodies. Substantial potential for abuse exists where a company may decide to support a wide range of social causes and yet submit to little public scrutiny. The expertise argument is that, although a corporation may have a high level of expertise in selling its goods and services, there is no guarantee that any promotion of social activities will be carried on with the same degree of competence.

68. Define business ethics and give some examples of the types of situations in which ethical issues might arise in a business setting.

Graders Info :

Business ethics is a subset of ethics and a branch of applied ethics. It is the study and determination of what is right and good in business settings. Business ethics seeks to understand the moral issues that arise from business practices, institutions, and decision making. Issues of business ethics might arise in the employment relationship (safety, compensation of employees, privacy, equal treatment, freedom from sexual harassment, whistle-blowing), in the relationship between a business and its customers (marketing techniques, product safety, consumer protection), the relationship between a business and its owners (corporate governance, shareholder voting, management's duties to shareholders), the relationship among competing businesses (fair competition, effects of collusion), the interaction between business and society (pollution, commitment to the community's infrastructure, depletion of natural resources), and international relations (bribery of foreign officials, exploitation of less-developed countries, conflicts among different cultures and value systems).

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