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Chapter 2 Ethics in Business

TRUEFALSE

1. Unless a corporation violates a law, its actions do not raise questions about the role of corporations and the effect of corporate ethics on profit.

(A) True

(B) False

Answer : (B)

2. Ethics is the study of what constitutes right and wrong behavior.

(A) True

(B) False

Answer : (A)

3. Business ethics looks at the decisions that businesses make or have to make and whether those decisions are right or wrong.

(A) True

(B) False

Answer : (A)

4. Ethics is as well defined as the law.

(A) True

(B) False

Answer : (B)

5. Ethical codes of conduct can set the ethical tone of a firm.

(A) True

(B) False

Answer : (A)

6. Management's behavior sets the ethical tone of a firm.

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(A) True

(B) False

Answer : (A)

7. Managers must apply the same ethical standards to themselves as they do to their employees.

(A) True

(B) False

Answer : (A)

8. An ethics program can clarify what a company considers to be unacceptable conduct.

(A) True

(B) False

Answer : (A)

9. Few companies provide any kind of support such as ethical training programs and seminars to make their ethical codes more effective.

(A) True

(B) False

Answer : (B)

10. Codes of ethical conduct can indicate how employees are expected to act.

(A) True

(B) False

Answer : (A)

11. Effective corporate ethical policies must be integrated throughout the firm.

(A) True

(B) False

Answer : (A)

12. Corporations can be perceived as owing ethical duties to groups other than their shareholders.

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(A) True

(B) False

Answer : (A)

13. In a corporation, managers are often faced with ethical trade-offs when a certain decision will benefit one group, but harm another.

(A) True

(B) False

Answer : (A)

14. Focusing on a firm's short-term profits without considering the company's long-term needs may be acting unethically.

(A) True

(B) False

Answer : (A)

15. Destroying records in relation to a bankruptcy proceeding can be in a company's best interest.

(A) True

(B) False

Answer : (B)

16. It may be unethical for a company with a product that is outlawed in one country to look elsewhere for a market.

(A) True

(B) False

Answer : (A)

17. The legality of an action is always clear.

(A) True

(B) False

Answer : (B)

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18. Adhering strictly to all business laws is all that is necessary to fulfill all business ethics obligations.

(A) True

(B) False

Answer : (B)

19. It is illegal for a company with a product that is outlawed in one country to look elsewhere for a market.

(A) True

(B) False

Answer : (B)

20. If an action is legal, it is ethical.

(A) True

(B) False

Answer : (B)

21. If people merely comply with the law, they are acting at the lowest ethical level society will tolerate.

(A) True

(B) False

Answer : (A)

22. An action may be legal but not ethical.

(A) True

(B) False

Answer : (A)

23. It is always clear what is legal in a given situation.

(A) True

(B) False

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Answer : (B)

24. Acting in good faith gives a business firm a better chance of defending its actions in court.

(A) True

(B) False

Answer : (A)

25. Ethical reasoning is the process through which an individual links his or her moral convictions or ethical standards to the particular situation at hand.

(A) True

(B) False

Answer : (A)

26. Duty-based ethical standards often come from religious precepts or through philosophical reasoning.

(A) True

(B) False

Answer : (A)

27. Religious rules generally are absolute with respect to the behavior of their adherents.

(A) True

(B) False

Answer : (A)

28. Ethical reasoning is the process through which an individual rationalizes whatever action he or she chooses to take.

(A) True

(B) False

Answer : (B)

29. Under the principle of rights theory, one person's principles are as "right" as another's.

(A) True

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(B) False

Answer : (B)

30. In ethical terms, a cost-benefit analysis is an assessment of the negative and positive effects of alternative actions on individuals.

(A) True

(B) False

Answer : (A)

31. According to utilitarianism, it does not matter how many people suffer a negative effect from an act.

(A) True

(B) False

Answer : (B)

32. The concept of corporate social responsibility is imposed on corporations by law.

(A) True

(B) False

Answer : (B)

33. Corporations can be viewed as "citizens" that are expected to participate in bettering society.

(A) True

(B) False

Answer : (A)

34. Some provisions of U.S. bribery laws are directed toward accountants.

(A) True

(B) False

Answer : (A)

35. Bribery of foreign government officials is both an ethical and a legal issue.

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(A) True

(B) False

Answer : (A)

MULTICHOICE

36. In studying the legal environment of business, students also review ethics in a business context. Ethics includes the study of what constitutes

(A) fair or just behavior.

(B) financially rewarding behavior.

(C) legal behavior.

(D) religious behavior.

Answer : (A)

37. Desdemona works for eMarketing, Inc. Her job includes putting "spin" on the firm's successes and failures. In this context, ethics has to do with how businesspersons, in making their decisions, apply

(A) legal doctrine.

(B) moral and ethical principles.

(C) corporate guidelines.

(D) financial priorities.

Answer : (A)

38. Julie is sales manager for Kleen ‘N Brite Products, Inc. Compared to Julie's personal activities, her business activities most likely involve

(A) more complex ethical issues.

(B) no ethical issues.

(C) simpler ethical issues.

(D) the same ethical issues.

Answer : (A)

39. Mary works in the public relations department of New Trends Sales Company. Her job includes

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portraying New Trends's activities in their best light. In this context, ethics consist of

(A) a different set of principles from those that apply to other activities.

(B) the same moral principles that apply to non-business activities.

(C) those principles that produce the most favorable financial outcome.

(D) whatever saves New Trends's "face."

Answer : (B)

40. Flexo Trucking Company transports hazardous waste. Garn is a Flexo driver, whom the company knows drives longer hours than federal regulations permit. One night, Garn exceeds the limit and has an accident. Spilled chemicals contaminate Hill City's water source, forcing the residents to move away. Flexo acted unethically because

(A) Flexo showed reckless disregard for Hill City's residents and others.

(B) Garn exceeded the federal time limit.

(C) harm was caused by an unfortunate accident.

(D) Hill City should have better protected its water source.

Answer : (A)

41. Any decision by the management of Fast-Food Franchise Corporation may significantly affect its

(A) operators only.

(B) operators, owners, suppliers, the community, or society as a whole.

(C) owners only.

(D) suppliers, the community, or society as a whole only.

Answer : (B)

42. Lucas is a business manager for Micro Manufacturing Co. Ethical dilemmas that Lucas is *not* likely to encounter include deciding

(A) the kind of pizza to order for a company meeting.

(B) whether to lay off employees or take a loss in corporate profits.

(C) whether to admonish an employee making rude jokes in the workplace.

(D) what to tell a reporter about the recent drop in corporate stock prices.

Answer : (A)

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43. At a meeting of employees, Fuel Injection Design & Manufacturing, Inc.'s managers announce the creation of a new company-wide code of ethical conduct and the initiation of an ad campaign to publicize the new code. They also say that any employees who do not adhere to the code will be discharged. The effectiveness of this code will be determined by

(A) the commitment of company leadership to enforcing the code.

(B) the extent to which the employees comply with the code.

(C) a marketing campaign posted online to tout the firm's ethical tone.

(D) management directing employees to "do as we say, not as we do."

Answer : (A)

44. Fealty Credit Corporation asks its employees to evaluate their actions and get on the ethical business decision-making "bandwagon." Guidelines for judging individual actions most likely include all of the following except

(A) an individual's conscience.

(B) business rules and procedures.

(C) loopholes in the law or company policies.

(D) promises to others.

Answer : (C)

45. Megan is in charge of the ethics of Ethical Eggs, Inc., an organic egg raising company. In addition to an ethical code of conduct, Megan is most likely *not* in charge of

(A) an ethics committee.

(B) ethical training programs.

(C) internal ethical audits.

(D) ethical reviews of employees' family members.

Answer : (D)

46. Ridgeline Excavation & Construction, LLC, creates an internal code of ethics. Like the codes of other firms, Ridgeline's company code is *not*

(A) law.

(B) a set of rules that the company can enforce.

(C) an outline of the company's policies.

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(D) a guide for decision makers facing ethical questions.

Answer : (A)

47. Peak & Vale Accountants provides other firms with accounting services. Questions of what is ethical involve the extent to which Peak & Vale has

(A) a legal duty beyond those duties mandated by ethics.

(B) an ethical duty beyond those duties mandated by law.

(C) any duty beyond those mandated by both ethics and the law.

(D) any duty when it is uncertain whether a legal duty exists.

Answer : (B)

48. Kennedy Capital Corporation provides other firms with funds to expand operations. If Kennedy strictly complies with existing laws, the firm will

(A) fulfill all business ethics obligations.

(B) fulfill no business ethics obligations.

(C) fulfill some business ethics obligations.

(D) not need to fulfill any business ethics obligations.

Answer : (C)

49. SuperMeds Corporation has just developed a new drug that controls severe acne. The drug is not approved by the FDA for use in the United States because it contains a chemical known to produce negative side effects after many years of continuous use. SuperMeds finds that it can profitably sell the drug in Mexico because the questionable chemical is not banned there. Whether it is ethical to sell the drug in Mexico depends on

(A) the number of years before side effects show up.

(B) the number of potential customers.

(C) which legal standards are applied.

(D) which ethical standards are applied.

Answer : (D)

50. Housemate, Inc., makes and sells a variety of household products. With a fair amount of certainty, Housemate's decision makers can predict whether a given business action would be legal in

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(A) all situations.

(B) many situations.

(C) no situations.

(D) practically no situations.

Answer : (B)

51. Precision Engineering Inc., like other corporations, is subject to laws that are broad in their purpose and their scope. Compliance with these laws is not always sufficient to determine "right" behavior because

(A) the law does not codify all ethical requirements.

(B) company codes are also sources of law.

(C) business decisions can have negative impacts.

(D) ethical problems occur in business.

Answer : (A)

52. Brewster, the chief executive officer of Cog & Gear Lubricants Corporation, wants to ensure that Cog & Gear's activities are legal and ethical. The best course for Brewster and Cog & Gear is to act

(A) in good faith.

(B) out of ignorance of the law.

(C) with regard for the firm's shareholders only.

(D) in their own self-interest.

Answer : (A)

53. David, the chief accounting officer of Texas Fencing Corporation, wants to be sure that all the company's accounts are legal and ethical. Sometimes, however, he is unsure exactly what is legal and what is illegal. David should

(A) not worry about what is legal or illegal as long as the corporate officers benefit in the short run.

(B) try his best to not do anything illegal and keep documentation showing that he always acts in good faith.

(C) not worry about what is legal or illegal as long as it benefits the shareholders.

(D) not worry about what is legal or illegal as long as it benefits the directors of the corporation.

Answer : (B)

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54. Top Toys Corporation has an online forum where employees can post new toy ideas or reviews. Thomas posts a racially offensive video on the forum. Top Toys should

(A) do nothing because Thomas has the First Amendment right to free speech.

(B) do nothing because acknowledging Thomas's video will give it credibility.

(C) take action against Thomas to show that racial discrimination is unacceptable in the firm.

(D) take action against Thomas because videos can consume considerable bandwidth on a company server.

Answer : (C)

55. In business deals, Fiona, the chief executive officer of Glazed Donuts, Inc., follows duty-based ethical standards. These are most likely derived from

(A) a corporate ethics code.

(B) a cost-benefit analysis.

(C) philosophical reasoning.

(D) the law.

Answer : (C)

56. Ryland, an officer for Sports Park, Inc., attempts to apply a duty-based approach to ethical reasoning in conflicts that occur on the job. This approach is based on the idea that a person must

(A) achieve the greatest good for the most people.

(B) avoid unethical behavior regardless of the consequences.

(C) conform to society's ethical standards.

(D) place his or her employer's interest first.

Answer : (B)

57. In making business decisions, Glenda, personnel manager for HVAC Maintenance, Inc., applies her belief that all persons have fundamental rights. This is

(A) a religious rule.

(B) the categorical imperative.

(C) the principle of rights.

(D) utilitarianism.

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Answer : (C)

58. As CEO of Alabama Archery Supplies, William always considers how he would like to be treated by others in the same situation before making a decision. William tends to make decisions based on

(A) the categorical imperative.

(B) the Golden Rule.

(C) the principle of rights.

(D) the Ten Commandments.

Answer : (B)

59. Steaks n' Fries Restaurant Company's decision makers view a particular risk in the consumption of Steaks n' Fries' products as open and obvious. Continuing to market the products without explicitly telling consumers of the risk could be justified from a perspective of

(A) duty-based ethics.

(B) corporate social responsibility.

(C) religious ethical principles.

(D) outcome-based ethics.

Answer : (D)

60. Provident Medical Health Center asks its employees, many of which are members of the American Nurses Association, to apply the utilitarian theory of ethics. This theory does *not* require

(A) a choice among alternatives to produce the maximum societal utility.

(B) a determination of whom an action will affect.

(C) an assessment of the effects of alternatives on those affected.

(D) the acquiring of the means of production by workers.

Answer : (D)

61. Dyan, the owner of Expert Restoration Services, Inc., adheres to the "principle of rights" theory. Under this theory, a key factor in determining whether a business decision is ethical is how that decision

(A) compares to religious principles.

(B) affects the rights of others.

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(C) causes consequences that would follow if everyone in society acted the same way.

(D) supports the right to make a profit.

Answer : (B)

62. In making decisions for Commercial Janitorial & Maintenance Services, Inc., Isaiah uses a cost-benefit analysis. This analysis is part of

(A) duty-based ethics.

(B) Kantian ethics.

(C) the principle of rights.

(D) utilitarianism.

Answer : (D)

63. Morgan and other executive officers of Regional Economic Development Associates, Inc., applies the utilitarian theory of ethics in business contexts. Utilitarianism focuses on

(A) moral values.

(B) religious beliefs.

(C) the consequences of an action.

(D) the nature of an action.

Answer : (C)

64. Bob, research manager for Corn Agri Products, Inc., applies utilitarian ethics to determine that an action is morally correct when it produces the greatest good for

(A) Bob.

(B) Corn Agri.

(C) the fewest people.

(D) the most people.

Answer : (D)

65. In deciding questions of corporate social responsibility, Valley Disposal & Recycling, Inc., is concerned with

(A) how the corporation can best fulfill any ethical duty to society.

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(B) the effect on corporate profits of ignoring any ethical duty to society.

(C) whether the corporation owes any ethical duty to society.

(D) all of the choices.

Answer : (D)

66. Palette Paints, Inc. expends funds and takes steps to ensure that all employees are safe on the job, that all products are safe for consumers, and that the environmental impact of the corporation is minimal. Palette Paints appears to believe in the concept of

(A) the moral minimum.

(B) corporate social responsibility.

(C) the categorical imperative.

(D) utilitarianism.

Answer : (B)

67. According to the view that New Allied Manufacturing Corporation is a "citizen," New Allied is expected to

(A) participate in bettering communities and society.

(B) primarily generate revenue for its owners.

(C) have no responsibility other than profit maximization.

(D) efficiently allocate scarce resources.

Answer : (A)

68. Ethical standards would most likely be considered violated if Team Logos Merchandising Corporation deals with a company in a developing nation that

(A) agrees to produce goods at Team Logos's desired price.

(B) goes unnoticed by "corporate watch" groups.

(C) routinely violates labor and environmental standards.

(D) pays its workers less than the U.S. minimum wage.

Answer : (C)

69. Major Construction & Manufacturing Corporation makes a side payment to a government official in India. Under the Foreign Corrupt Practices Act, this is

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(A) prohibited.

(B) permitted if the purpose is to secure a favorable contract.

(C) permitted under the dictum "When in Rome, do as the Romans do."

(D) permitted if the official is not a U.S. citizen.

Answer : (A)

70. To assist in detecting illegal bribes, International Civil Engineers, Inc., and all other U.S. companies must

(A) conceal financial records that reveal past bribes.

(B) keep records that "accurately and fairly" reflect their financial activities.

(C) make bribes through third parties rather than directly to officials.

(D) permit payments to foreign officials that are unlawful in that country.

Answer : (B)

ESSAY

71. Recreation & Sports Equipment Corporation sells a product that is capable of seriously injuring consumers who misuse it in a foreseeable way. Does the firm owe an ethical duty to take this product off the market? What conflicts might arise if the firm stops selling this product?

Graders Info :

Ethical behavior can sometimes generate sufficient good will to warrant practicing it out of a desire for increased profits. By the same token, unethical behavior can sometimes generate enough bad publicity to warrant avoiding it out of the same desire. A business firm's activities that are perceived as ethical and receive wide publicity can benefit the firm's owners in the short run-and even in the long run if the firm's enhanced public image continues to attract more consumers to its products. There is nothing unethical about making a profit. It is the behavior that generates the profit that can be questionable. Business ethics thus has a practical element. A business firm should act in its best interest. A firm interested in profits should also be interested in the public's opinion.
Of course, it is not a company's fault when consumers misuse its product. If continuing to sell a product is not a strict violation of the law, stopping its sale would likely reduce profits. This could impact the firm's owners, employees, and others. But suspending sales could reduce injuries, and it could lead to increased profits from the sales of other products, if the suspension stops negative publicity.
When a business entity decides to respond to what it sees as a moral or ethical obligation by removing a product from the market, an ethical conflict is raised between the firm and its employees and between the firm and its shareholders. This conflict arises directly out of the impact that the decision has on the firm's profits. If meeting this perceived obligation increases the firm's

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profitability, then all parties "win" and the dilemma would be easily resolved in favor of "doing the right thing."

72. Frances, an executive with GMO Seed & Feed, Inc., has to decide whether to market a product that could offer substantial benefits but might also have potentially serious side effects for a small percentage of users. How should Frances decide whether to sell the product? How does the standard of ethics that is applied affect this answer?

Graders Info :

When a corporate executive has to decide whether to market a product that might have undesirable side effects for a small percentage of users but that would be beneficial for most users, the decision turns on the benefit to the many versus the harm to the few. Of course, all possible precautions should be taken to protect the few. A more specific answer depends on which system of ethics is applied.
From a religious duty-based perspective, the answer might be absolute: do not sell the product because some would be harmed, sell the product only to those who would not be harmed, or sell the product with clear warnings of the possible harm. Similar conclusions might be reached through a philosophical, "categorical imperative," duty-based approach, which would consider the result if every corporation chose to sell the product. A principle-of-rights duty-based approach might likewise come to the same conclusions, reasoning that all persons have a right to life, for example, and that the corporation has an ethical duty to respect that right and act accordingly.
From a utilitarian perspective, under a cost-benefit analysis, if the product were sold, it could benefit the greatest number of persons-future and current employees, as well as shareholders, and most consumers. If there was "bad" publicity, and it was adverse enough to reduce sales, however, more persons could benefit from the decision not to market the product.
Under any of the different corporate social responsibility theories, the decision whether to market the product would acknowledge the firm's duty to act ethically and be accountable to society. There might be a balancing of the interests of competing stakeholder groups or a shouldering of the responsibility to behave in a socially beneficial way as a good corporate citizen. Of course, the firm would likely have to accept any legal liability that would arise from its sale of the product.

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