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Chapter 02 Business Ethics and the Social Responsibility of Business

TRUEFALSE

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

(A) True

(B) False

Answer : (A)

2. The study of business ethics has one main authority and clear cut universal standards.

(A) True

(B) False

Answer : (B)

3. Because there are no universal, clear-cut standards to apply to ethical analysis, it is impossible to make meaningful ethical judgments.

(A) True

(B) False

Answer : (B)

4. Not everything that is legal is also morally correct.

(A) True

(B) False

Answer : (A)

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. The two major forms of utilitarianism are situational and *a priori*.

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(A) True

(B) False

Answer : (B)

7. Situational ethics judges a person's ethics, and it does so from the perspective of the actor.

(A) True

(B) False

Answer : (A)

8. Jeremy Bentham was not a proponent of utilitarianism.

(A) True

(B) False

Answer : (B)

9. One criticism of utilitarianism is that it ignores justice in some important instances.

(A) True

(B) False

Answer : (A)

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 sometimes criticized for rigidity and excessive formalism.

(A) True

(B) False

Answer : (A)

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

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actions.

(A) True

(B) False

Answer : (A)

13. In employment relationships, ethical issues are often centered around safety and fair treatment of workers.

(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. Factors leading to the need for the ethical and social responsibility of business are the demands of maintaining a competitive, fair marketplace and the size and power of individual corporations.

(A) True

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(B) False

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. According to Adam Smith, the capitalistic system is composed of economic motivation, private productive property, free enterprise, free markets, competition, and limited government.

(A) True

(B) False

Answer : (A)

20. Most philosophers agree that people can discover fundamental ethical rules by applying careful *a priori* reasoning.

(A) True

(B) False

Answer : (B)

21. The theory of distributive justice analyzes society through a "veil of ignorance."

(A) True

(B) False

Answer : (A)

22. What is unjust to a social egalitarian will likely 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

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universal law and it must respect the autonomy and rationality of all human beings.

(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. Under a strict utilitarian approach, it is ethical to force an individual to participate in a painful medical experiment if the purpose of the experiment is to develop a cure that will benefit large numbers of people.

(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. Ashley would like to propose to the board of directors of Mountain Corporation that it distribute eight percent of its pre-tax yearly income to provide housing to homeless veterans. To Milton Friedman, Ashley's proposal would be considered unethical, because it violates the purpose for which the corporation was established.

(A) True

(B) False

Answer : (A)

28. According to one argument in favor of corporate social responsibility, the more responsibly companies act, the less the government must regulate them.

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(A) True

(B) False

Answer : (A)

29. Although discussions have occurred, thus far legislators have not passed any statutes which seek to prevent corporate misconduct and increase corporate responsibility.

(A) True

(B) False

Answer : (B)

30. Situational ethics is essentially the same as ethical relativism.

(A) True

(B) False

Answer : (B)

31. Deontological theories assess good and evil in terms of the consequences of actions rather than by the motives that lead to them.

(A) True

(B) False

Answer : (B)

32. Utilitarian notions underlie cost-benefit analysis.

(A) True

(B) False

Answer : (A)

33. Business ethics is a subset of ethics; there is no special set of ethical principles that applies only to the business world.

(A) True

(B) False

Answer : (A)

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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

(B) False

Answer : (A)

MULTICHOICE

35. The definition of the doctrine of ethical relativism includes:

(A) that when any two individuals differ regarding the morality of an issue or action, they are both correct because morality is relative.

(B) the proposition that a good or moral act is one that results in "the greatest good for the greatest number."

(C) the notion that cost-benefit analysis is relative to making ethical decisions.

(D) that, without any further evaluation, the ultimate judgment of the correctness of an action relates to pronouncements of a central authority.

Answer : (A)

36. Which of the following *does not* describe 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 an injustice 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 some can play in the market effectively while others cannot.

Answer : (B)

37. In Adam Smith's *The Wealth of Nations*, how many "institutions" are in the capitalistic system?

(A) 3

(B) 4

(C) 5

(D) 6

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Answer : (D)

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

(A) libertarianism.

(B) utilitarianism.

(C) deontology.

(D) ethical relativism.

Answer : (B)

39. How many stages are there in Kohlberg's theory of moral development?

(A) 2

(B) 3

(C) 4

(D) 5

Answer : (B)

40. In 2002, Congress passed what legislation seeking to prevent business scandals by increasing corporate responsibility through imposing additional corporate governance requirements on publicly held corporations?

(A) The Securities and Exchange Act

(B) The Sarbanes-Oxley Act

(C) The Kohlberg Act

(D) The Uniform Commercial Code

Answer : (B)

41. The ethical decision-making approach that views ethical decisions from the actor's perspective and then judges whether the decisions were ethical is:

(A) ethical fundamentalism.

(B) absolutism.

(C) situational ethics.

(D) act utilitarianism.

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Answer : (C)

42. 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 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)

43. Arguments favoring social responsibility of business entities include all but which of the following?

(A) Corporations are subject to a higher standard of accountability than are public bodies.

(B) Limited liability granted to corporations carries a responsibility to contribute to society's betterment.

(C) Corporate involvement in social causes makes good business sense.

(D) The more responsibly companies act, the less regulation the government must provide.

Answer : (A)

44. 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 person who actually made the judgment.

(D) All of these are true.

Answer : (C)

45. To a(n) ____, whether telling a lie in a given instance would produce greater pleasure than telling the truth is less important than deciding if a general practice of lying would maximize society's pleasure.

(A) deontologist

(B) rule utilitarian

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(C) ethical fundamentalist

(D) ethical relativist

Answer : (B)

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

(A) Kant's approach is premised on man's rationality 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)

47. Kohlberg observed that people progress through stages of moral development according to the major variables of:

(A) age and education.

(B) age, economic status, and peer influence.

(C) education and family guidance.

(D) religion, education, and the influence of peers and family.

Answer : (A)

48. 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

Answer : (A)

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

(A) It is a science completely separate from applied ethics.

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(B) It is fully codified in federal statutes.

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

(D) It seeks to determine what is good and right in business settings.

Answer : (D)

50. According to Jack Behrman, a professor of business ethics, free enterprise involves a:

(A) combination of properties.

(B) capitalistic combination of factors of production.

(C) group expression of the use of private property.

(D) All of these are true.

Answer : (D)

51. 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 are true.

Answer : (D)

52. Nineteen-year-old Martin was raised in a loving family that attended a Christian church regularly and he 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) Preconventional

(B) Conventional

(C) Postconventional

(D) Universal

Answer : (B)

53. A common criticism of deontological ethical theories is that they:

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(A) are excessively pragmatic.

(B) are rigid and excessively formal.

(C) only consider actions by their motives.

(D) fail to consider universal principles.

Answer : (B)

54. A common criticism of ethical relativism is that it:

(A) promotes open-mindedness and tolerance.

(B) 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) is rigid and excessively formal.

(D) is too judgmental.

Answer : (B)

55. 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, not of results.

Answer : (D)

56. An auto designer chooses to devote his efforts to designing 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.

(C) ethically relative.

(D) ethically fundamental.

Answer : (B)

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

(A) Economic motivation

(B) Free enterprise

(C) Labor

(D) Limited government

Answer : (C)

ESSAY

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

a. The approach of Immanuel Kant and his "categorical imperative."
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 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) be respectful of 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 lying would not maximize society's pleasure generally, one should not lie.

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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 majority of 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 for herself or himself.

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, 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.

59. 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, who then liquidate its assets to pay its creditors and depositors, seize Bonanza. Because Bonanza is federally insured, a substantial amount of 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.

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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.

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 his 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.

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

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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. 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. Social ethics theories judge society in moral terms by how it is organized and how it distributes goods and services.

61. 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 egalitarianism
c. Libertarianism

Graders Info :

Students' answers of course will vary. The goal of this question is to have the students apply what they are learning to their own view of acts, decisions, and perspectives. 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 society's members. Harvard philosopher, John Rawls, proposed this theory. Such a society would not be strictly egalitarian. Equality of opportunity, not results, 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 . . .
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 . . .

62. 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.

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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 the pleasure of reward. In the business setting, people would act ethically only out of fear that they would get caught and that they would be 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. Persons at this stage do 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 meet the expectations of the groups to which they belong. Motivation for conformity is loyalty, affection, and trust. 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.

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