Test Bank for Essentials of Business Law and the Legal Environment 13th Mann

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TRUE/FALSE

1 : Ethics can be defined broadly as the study of what is good or right.
A : true
B : false

Correct Answer : A

2 : Systems of ethics have a central authority and follow clear-cut, universal standards.
A : true
B : false

Correct 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

Correct Answer : A

4 : Kohlberg believed that all people reach the third stage of moral development by adulthood.
A : true
B : false

Correct 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

Correct Answer : B

6 : Legal acts may be immoral.
A : true
B : false

Correct Answer : A

7 : Situational ethics, unlike ethical relativism, judges a persons ethics, but first looks at the decision or act from the perspective of the actor.
A : true
B : false

Correct Answer : A

8 : 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

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Correct Answer : B

9 : A leading proponent of the utilitarian approach to ethics was the eighteenth century philosopher Immanuel Kant.
A : true
B : false

Correct Answer : B

10 : Deontologists are criticized for rigidity and excessive formalism.
A : true
B : false

Correct Answer : A

11 : Intuitionism holds that rational persons possess inherent powers to assess the correctness of actions.
A : true
B : false

Correct Answer : A

12 : Kants philosophy rejects the idea that the end justifies the means.
A : true
B : false

Correct Answer : A

13 : To a libertarian, it is not unjust for some people to accumulate fortunes while others live in poverty.
A : true
B : false

Correct Answer : A

14 : 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

Correct Answer : B

15 : Rule utilitarianism supports rules that, on balance, produce the greatest good.
A : true
B : false

Correct Answer : A

16 : 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

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Correct Answer : A

17 : Kants categorical imperative is a variation of the Golden Rule.
A : true
B : false

Correct Answer : A

18 : The essential characteristic of ethical fundamentalism is a reliance upon a central repository of wisdom.
A : true
B : false

Correct Answer : A

19 : 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

Correct Answer : A

20 : What is unjust to a social egalitarian will also be unjust to a libertarian.
A : true
B : false

Correct Answer : B

21 : Cost-benefit analysis seeks the greatest economic efficiency according to the underlying notion that, given two potential acts, the act achieving the greatest output at the least cost promotes the greatest marginal happiness over the less-efficient act, other things being equal.
A : true
B : false

Correct Answer : A

22 : 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.
A : true
B : false

Correct Answer : A

23 : 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

Correct Answer : A

24 : Kants approach, like that of ethical fundamentalists, asserts that universal laws stem from the direct pronouncements of God.

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A : true
B : false

Correct Answer : B

25 : Bennett would like to propose to the board of directors of Benmarc, Inc., that the corporation distribute one percent of its pre-tax yearly income to feed the poor. To Milton Friedman and others, Bennetts proposal might be considered unethical, because it violates the purpose for which the corporation was established.
A : true
B : false

Correct Answer : A

26 : Corporations are subject to a higher standard of accountability than are public bodies.
A : true
B : false

Correct Answer : B

27 : 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

Correct Answer : B

28 : The Television Test is a test that is generally accepted by adherents of intuitionism.
A : true
B : false

Correct Answer : A

29 : Deontological theories assess good and evil in terms of the motives behind actions.
A : true
B : false

Correct Answer : A

30 : Utilitarian notions underlie cost-benefit analysis.
A : true
B : false

Correct Answer : A

31 : Ethical issues in business settings include corporate governance, whistle-blowing, shareholder voting, and managements duties to shareholders.
A : true
B : false

Correct Answer : A

32 : Ethical relativism holds that when any two individuals or cultures differ regarding the

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morality of a particular issue or action, they are both correct because morality is relative.
A : true
B : false

Correct Answer : A

33 : 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

Correct Answer : A

MULTIPLE CHOICE

34 : 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.

Correct Answer : A

35 : Which of the following statements is true of the libertarian social ethics theory?
A : Libertarians stress market outcomes as the basis for distributing societys 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.

Correct Answer : A

36 : 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.

Correct Answer : B

37 : The ethical theory that underlies cost-benefit analysis is:
A : libertarianism.
B : deontology.
C : utilitarianism.
D : ethical relativism.

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Correct Answer : C

38 : Which of the following is not true about corporations in the United States?
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.

Correct Answer : C

39 : 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.

Correct Answer : A

40 : The ethical decision making approach that views ethical decisions from the actors perspective and then judges whether the decisions were ethical is:
A : ethical fundamentalism.
B : ethical relativism.
C : situational ethics.
D : act utilitarianism.

Correct Answer : C

41 : 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.

Correct Answer : D

42 : 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 societys members.
D : society should stress equality of opportunity, not results.

Correct Answer : A

43 : In what way or ways are ethical relativism and situational ethics 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.

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C : They both judge actions from the perspective of the actor.
D : They both begin with an evaluation of the economic benefit of a decision.

Correct Answer : C

44 : To a _____ , 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 societys pleasure.
A : deontologist
B : rule utilitarian
C : ethical fundamentalist
D : ethical relativist

Correct Answer : B

45 : How does Immanuel Kants approach to ethical decision-making differ from that of an ethical fundamentalist?
A : Kants approach is premised on the rationality of human beings and not on principles handed down from above.
B : Kants approach stresses liberty and not justice.
C : Kants approach judges society in moral terms by how it distributes goods and services.
D : Kants approach assesses each separate act according to whether it maximizes pleasure over pain.

Correct Answer : A

46 : 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.

Correct Answer : D

47 : 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.

Correct Answer : A

48 : 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.

Correct Answer : A

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

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A : it is rigid.
B : in some important instances it ignores justice.
C : it results in the judgment that a persons actions are always moral for that person and therefore exempt from punishment.
D : it is excessively formal.

Correct Answer : B

50 : 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.

Correct Answer : D

51 : Nineteen-year-old Kiren was raised in a home where Christianity is practiced and he attended parochial school through eighth grade. Kiren 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 Kohlbergs schematic analysis, Kiren is most likely at what stage of moral development?
A : Pre-conventional.
B : Conventional.
C : Post-conventional.
D : Adult.

Correct Answer : B

52 : 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.

Correct Answer : B

53 : Which of the following is a common criticism of ethical relativism?
A : It promotes open-mindedness and tolerance.
B : It assumes that a persons 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.

Correct Answer : B

54 : 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.

Correct Answer : D

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55 : 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 designers approach to ethical decision-making is best characterized as:
A : utilitarian.
B : deontological.
C : ethically relative.
D : ethically fundamental.

Correct Answer : B

56 : 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 societys wealth.
C : society should divide wealth based on each persons contribution.
D : that if persons wish to act morally, they should emulate those in the society who always seem to do the right thing.

Correct Answer : B

57 : 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.

Correct Answer : C

58 : 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.

Correct Answer : B

ESSAY

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

Correct Answer : 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

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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.?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.?

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

Correct Answer : 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 Milo 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. Milo's actions would likely fail this test. He should have disclosed his business ties with Lily and Kent 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, Milo 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 partners.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, Milo's obligation as a director is to make Corley as profitable as possible in order to make money for its shareholders. Milo fails this test, because his actions were intended to make money for himself and his own business partners rather than for the Corley 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 Milo's failure to disclose his business ties to Kent and Lily 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 Corley. Immanuel Kant believed that for an action to be moral, it

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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 Milo's actions in terms of his duties to the shareholders and depositors of Corley as well as to the taxpayers of the nation and to his business partners. Milo'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 Milo'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 Milo'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 Milo's actions ethical if he thought they were right for him.?

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

Correct Answer : 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. 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.

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

Correct Answer : 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.

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

Correct Answer : 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

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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...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...?

64 : 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.

Correct Answer : 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.

65 : Discuss the arguments for and against businesses involvement in socially responsible activities.

Correct Answer : 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 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

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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.

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

Correct Answer : 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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