Test Bank for Essentials of the Legal Environment of Business 2nd Mayer

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Chapter 2
Introduction to Business Ethics

True/False Questions

1. Ethics is the study of what is right and wrong from an individual's subjective moral viewpoint.
   False; Easy

2. Whenever we use the word "good," we always mean "morally" or "ethically" good.
   False; Easy

3. What is legal is not necessarily ethical, and what is ethical is not necessarily legal.
   True; Easy

4. In the Sears Auto Centers case, the loss of goodwill was real, even though that loss could not be calculated precisely.
   True; Easy

5. According to utilitarianism, positive results, rather than rules, are the true measure of morality.
   True; Easy

6. Under utilitarianism, we can be assured we are acting ethically whenever our act provides the greatest utility to us, even if it does not provide the greatest utility to society as a whole.
   False; Easy

7. According to Immanuel Kant, we should be able to universalize any particular law or action to determine whether it is ethical.
   True; Easy

8. If you have a right of free expression, the government has a duty to respect that right but can put unreasonable limits on it.
   False; Easy

9. According to Michael Josephson, there are six core values that almost everyone agrees are important to them.
   True; Easy

10. The agency problem in corporate governance is about how to get managers' interests well aligned with the shareholders' interests.
    True; Easy

11. A manager's fiduciary duty refers to resisting hostile takeover bids.
    False; Easy

12. Stakeholders can be economically dependent without having ownership.
    True; Easy

13. According to most observations about corporations, ethics, and corporate culture, the best ethics codes tend to be compliance driven.

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False; Easy

14. "Conscious capitalism" attempts to integrate the viewpoints of stakeholder theory and shareholder primacy.
True; Easy

Multiple Choice Questions

1. According to utilitarianism, _____.
   a. results, not rules, are emphasized
   b. ethical action arises from doing one's duty
   c. duties are defined by rational thought
   d. emphasis is on what is the fair way to distribute goods among a group of people
   e. people give up certain rights to government in exchange for security
   a; Easy

2. According to deontology, _____.
   a. rules are emphasized instead of results
   b. emphasis is on what is the fair way to distribute goods among a group of people
   c. people give up certain rights to government in exchange of security
   d. social contracts can be changed by the participants in a community
   b; Easy

3. Which of the following is true for the relationship between rights and duties in positive law?
   a. If you have a right of free expression, the government has a duty to respect that right by providing remedies that support that right.
   b. Rights and duties exist *a priori*, using natural law.
   c. Your rights, in legal terms, are only as good as your family's willingness to enforce the family's honor.
   d. Your first amendment rights are superior to any other rights; the only duties for positive law are to defend those rights as vigorously as possible.
   e. If someone punches you in the nose, your Constitutional right of privacy has been violated.
   a; Moderate

4. Which of the following is true according to Aristotle and Virtue theory?
   a. Aristotle believed that because all human activity was aimed at some goal, but that the goal of profit maximization was the only one that really mattered.
   b. Aristotle rejected wealth, pleasure, and fame as the distinguishing feature of humans as opposed to other species.
   c. To Aristotle, happiness means living according to the active pursuit of pleasure.
   d. Happiness cannot be associated with reason.
   b; Easy

5. What is the "agency problem" often discussed in corporate governance?
   a. How to get the managers' interests well aligned with the shareholders' interests.
   b. How to get owners to replace nonperforming or underperforming officers and directors.
   c. How a corporation should "manage earnings" through accounting in order to maximize profits for its stockholders.
   d. How to get corporations to engage in open and free competition without deception and fraud.

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e. How to get a corporation to act responsibly toward non-shareholder interests.
a; Moderate

6. The manager's fiduciary duty refers to _____.
   a. the duty of managers to maximize returns to employees
   b. the legally prescribed duties which make their employment possible
   c. the moral duty managers have to act as responsible agents to the owners
   d. managers' duty to resist hostile takeover bids
   e. managers' ability to successfully manage by the numbers
   c; Easy

7. What is an example of a social contract?
   a. an agreement between two people to go out on "a date."
   b. the rules of a sorority
   c. the Constitution of the United States
   d. a and b
   e. b and c
   e; Moderate

8. Which of the following is true with regard to stakeholders?
   a. The financial value of the organization has no impact on the wealth of shareholders.
   b. Some stakeholders can be economically dependent, even without an ownership interest.
   c. Governments in the U.S. and Europe almost always have a direct economic link to corporations.
   d. Local communities cannot be regarded as stakeholders for lack of a direct economic interest in the success of the firm.
   e. Those stakeholders with no ownership rights in the organization have no particular interest in whether the organization works in a socially responsible manner.
   b; Moderate

9. According to the stakeholder theory, _____.
   a. when it complies with its legal duties, the corporation can ignore any other social obligations
   b. a corporation's social responsibilities are limited to staying within the boundaries of the law
   c. corporate directors should only pay attention only to the bottom line
   d. a socially responsible corporation is likely to consider the impact of its decision on the shareholders only
   e. all the stakeholders to a corporate decision deserve some kind of moral consideration
   e; Easy

10. According to the Sears Auto Center case, which of the following is true?
   a. People at Sears resisted conflicts of interest by refusing to order work that was not necessary for the good of the customer.
   b. The customers were generally treated as ends rather than as a means to individual and corporate profit.
   c. The key people were motivated by all the goals for the organization rather than maximizing their own profits.
   d. Taking advantage of customers was possible for some time because individual consumers lacked the relevant information.

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e. Managers at Sears Auto Centers generally chose long-term gains over short-term losses.

d; Easy

11. Which of the following is true, according to conscious capitalism?
    a. Companies should operate with a holistic or systems view.
    b. Companies that practice conscious capitalism concentrate on giving superior results only to shareholders.
    c. People in an organization tend to closely watch what the top managers do and say.
    d. The best managers will often act more in his or her own self-interest than for the corporate interest.
    e. The best ethics codes are legalistic or compliance driven.

    a; Easy

12. _____ helps companies embrace the idea that profit and prosperity must go hand in hand with social justice and environmental stewardship.
    a. Social contract
    b. Stakeholder theory
    c. Conscious capitalism
    d. Virtue ethics
    e. Deontology

    c; Easy

13. Hobbes and Locke are generally regarded as the preeminent _____ theorists.
    a. stakeholder theory
    b. shareholder primacy
    c. social contract
    d. conscious capital
    e. virtue ethics

    c; Easy

15. Which of the following are "core values," according to Josephson?
    a. friendliness
    b. generosity
    c. temperance
    d. fortitude
    e. trustworthiness

    e; Easy

16. Which of the following is a minimum standard that Tom Donaldson said a multinational company should observe?
    a. A trial by jury
    b. Freedom of movement
    c. A college education
    d. The right to not be searched
    e. The right to bear arms

    b; Easy

17. In *Kirkpatrick v. Environmental Tectonics*, the defendants argued that the civil action was barred by the _____doctrine, which requires nation-states to respect the acts of another government.
    a. act of state

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b. commercial transaction
c. utilitarianism
d. social contract
e. stakeholder
a; Easy

Short Answer Questions

1. What are the frequent mistakes that people make in applying utilitarianism?
The mistakes that people make while applying utilitarianism are:
    - Failing to come up with lots of options that seem reasonable and then choosing the one that has the greatest benefit for the greatest number.
    - Assuming that the greatest good for you or the company is in fact the greatest good for all.
    - Underestimating the costs of a certain decision to you or your company.
    - Underestimating the cost or harm of a certain decision to someone else or some other group of people.
    - Favoring short-term benefits, even though the long-term costs are greater.
    - Assuming that all values can be reduced to money.

    Moderate

2. What are the core values identified by Josephson?
Trustworthiness
Respect
Responsibility
Fairness
Caring
Citizenship

    Easy

3. The 14 virtues named by Aristotle seemed old-fashioned from a modern perspective. The issues that emerged were:
    - How do we know what a virtue is these days?
    - How useful is a list of agreed-upon virtues anyway?
    - What do virtues have to do with companies, particularly large ones where various groups and individuals may have little or no contact with other parts of the organization? Also, can corporations "have" virtues, as it is not the same as an individual?

    Moderate

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