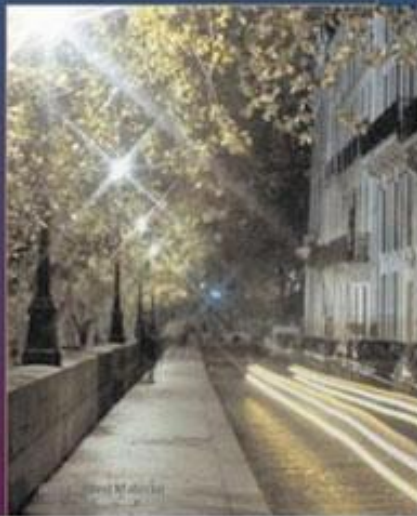


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SAMUELSON

**BUSINESS LAW**  
*and the Legal Environment*

STANDARD EDITION



## CHAPTER 2 - BUSINESS ETHICS AND SOCIAL RESPONSIBILITY

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### TRUE/FALSE

1. Ethics is the study of how people should act.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

2. The categorical imperative has been criticized by commentators on the practical grounds that benefit and harm are difficult to measure.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

3. There is strong evidence that ethical behavior pays off financially for businesses.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

4. The Enron Corp. example contained in the textbook raised an ethical issue of equality of treatment within the company.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

5. The ethics checklist provided in the textbook serves two purposes: it helps clarify the issues and it produces the one correct answer to an ethical dilemma.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

6. Society is hurt when business managers behave ethically.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

7. The Ford Motor Company example used in the textbook illustrates how corporate executives can choose to institute corporate policies that meet their personal social agendas and pass the costs on to consumers.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

8. Generally, ethical managers have happier, more satisfying lives.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

9. The behavior of top executives regarding ethical issues has little effect on the behavior of the employees of the organization.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

10. A company that engages in unethical behavior may suffer severe consequences.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

11. Wever, Inc. is considering relocating a facility to Mexico. The interests of the various stakeholders affected by this decision may conflict.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

12. The categorical imperative approach to ethical decision making is to ask the following question: "Which alternative causes the greatest good (or least harm) to the most people?"

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

13. There are values, such as integrity, that are generally considered universal.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

14. According to the concept of categorical imperative, you should not do something unless you would be willing for everyone else to also do it.

ANS: T                      MSC: AACSB Analytic | AACSB Ethics

15. The ethics checklist provided in the textbook was created by Supreme Court Justice Potter Stewart to aid business managers in finding solutions to difficult ethical problems.

ANS: F                      MSC: AACSB Analytic | AACSB Ethics

### **MULTIPLE CHOICE**

1. In analyzing a situation to determine how to act ethically, a business manager should:
- gather background information by either talking firsthand with the people involved or by talking to those who gained information informally through the company "grapevine."
  - narrowly focus on a single issue.
  - determine whether an alternative is "just."
  - All of the answers are correct.

ANS: C                      MSC: AACSB Analytic | AACSB Ethics

2. Zeno, Inc. is considering relocating its manufacturing facility from Illinois to Mexico City. The stakeholders in this decision might include:
- Zeno's shareholders.
  - customers.
  - the Illinois community in which Zeno operates.
  - All of the above.

ANS: D                      MSC: AACSB Reflective Thinking | AACSB Ethics

3. Ethics is the study of:
- sovereign immunity.
  - how people should act.
  - respondeat superior*.
  - victimization.

ANS: B                      MSC: AACSB Analytic | AACSB Ethics

4. Does ethical behavior maximize profitability?
- Yes, there is concrete evidence that ethical behavior maximizes profitability.
  - No, there is concrete evidence that unethical companies outperform ethical companies.
  - There is no universal agreement on the answer to this question.
  - There is strong evidence that ethical behavior pays financially in the long run, but not in the short run.

ANS: C                      MSC: AACSB Analytic | AACSB Ethics

5. Why should ethics be a concern to business?
- Society as a whole benefits from ethical behavior.
  - People feel better when they behave ethically.
  - Unethical behavior can be very costly.
  - All of the above.

ANS: D                      MSC: AACSB Analytic | AACSB Ethics

6. Which of the following values are considered almost universal?
- Courage.
  - Pusillanimity.
  - Soliditarianism.
  - All the answers are correct.

ANS: A                      MSC: AACSB Analytic | AACSB Ethics

7. Which of the following are alternatives in dealing with issues of ethics in advertising?
- Try, in a general way, to minimize racism, sexism, and other exploitation.
  - Include, as part of the development process, a systematic, focused review of the underlying messages contained in advertisements.
  - Refuse to create ads that are potentially demeaning, insensitive, or dangerous, recognizing that such a stand may lead to a loss of clients.
  - All of the above are alternatives in dealing with issues of ethics in advertising.

ANS: D                      MSC: AACSB Analytic | AACSB Ethics

8. The Golden Rule is:
- do unto others as you would have them do unto you.
  - riches come to those who behave ethically.
  - the alternative that creates the most good for the most people should be chosen.
  - weighing costs and benefits is golden.

ANS: A                      MSC: AACSB Analytic | AACSB Ethics

9. Research has shown that the least important motivation for managers in behaving ethically is:
- they want to feel good about themselves.
  - they want to feel good about the decisions they make.
  - they value their reputation.
  - profitability.

ANS: D                      MSC: AACSB Analytic | AACSB Ethics

10. Why do many major corporations actively encourage ethical behavior?
- Unethical behavior always damages a business.
  - Unethical behavior can quickly destroy a business.
  - Unethical acts are always illegal.
  - All of the above are reasons that corporations actively encourage ethical behavior.

ANS: B                      MSC: AACSB Analytic | AACSB Ethics

11. Unethical behavior in an organization can create:
- a cynical workforce.
  - a resentful workforce.
  - an unproductive workforce.
  - All of the above.

ANS: D                      MSC: AACSB Analytic | AACSB Ethics

12. The observation that "The one and only social responsibility of business is to increase profits" can be attributed to:
- Kenneth Lay.
  - William C. Ford, Jr.
  - Milton Friedman.
  - Immanuel Kant.

ANS: C                      MSC: AACSB Analytic | AACSB Ethics

13. E-presto, Inc. has established an EthicsLine. EthicsLine is a toll-free phone number that employees can call any time of the day, any day of the week to discuss ethics and report suspected unethical or improper conduct. Why would E-presto establish the EthicsLine?
- Ethical behavior improves productivity.
  - Ethical behavior increases job stability.
  - Unethical behavior can destroy a business.
  - All of the above are reasons that would justify establishing an EthicsLine.

ANS: D                      MSC: AACSB Reflective Thinking | AACSB Ethics

14. The Utilitarian approach to decision making is to:
- ask the following question: which alternative causes the greatest good (or least harm) to the most people.
  - do unto others as you would have them do unto you.
  - ignore ethics.
  - put short-term profits before all other considerations.

ANS: A                      MSC: AACSB Analytic | AACSB Ethics

15. Andrea, the vice president of production, is in the process of purchasing a new piece of equipment. She has narrowed the decision down to equipment from Westvo and Sontox. Westvo's equipment includes more safety features but costs 10% more. In making the decision, Andrea decided that she would not want to work on the Sontox equipment and she would not want others to base a decision on cost rather than safety. Consequently, she purchased the equipment from Westvo. What approach to ethical decision making did Andrea use?
- Categorical imperative.
  - Utilitarianism.
  - Realism.
  - Positivism.

ANS: A                      MSC: AACSB Reflective Thinking | AACSB Ethics

16. Scott, the president of Nent, Inc, decided to relocate a manufacturing facility to Asia. He based his decision on the fact that moving the facility to Asia will cause the greatest good to most people. What approach to ethical decision making did Scott use?
- Categorical imperative.
  - Utilitarianism.
  - Realism.
  - Positivism.

ANS: B                      MSC: AACSB Reflective Thinking | AACSB Ethics

17. Chelvam is the director of quality control. Chelvam rejected some parts as non-conforming to the specifications. Chelvam's supervisor directs him to accept the parts. Which value might give Chelvam the strength to oppose his supervisor?
- Consideration.
  - Courage.
  - Greed.
  - Pusillanimity.

ANS: B                      MSC: AACSB Reflective Thinking | AACSB Ethics

18. Paul decided he did not want the new jeans he had purchased from a large discount department store. He had worn them three times and decided he just did not like them. The jeans fit him fine and there is nothing wrong with them. He takes the jeans back to the store and, as is its policy, the store gave him a full refund of his money. Which statement is correct?
- Paul's conduct was not unethical since the store's policy of giving full cash funds applied.
  - Paul's conduct was unethical.
  - Paul's conduct was unethical, even though the store had a legal obligation to return his money.
  - Paul's conduct was ethical since the store has a legal duty to return his money when he returned the jeans.

ANS: B                      MSC: AACSB Reflective Thinking | AACSB Ethics

19. The Chief Executive Officer of Ticor, Inc. must decide about the disposal of toxic waste materials. Which of the following considerations should help the CEO reach an ethical business decision?
- Toxic waste disposal law.
  - The harm the disposal could cause to the environment.
  - The impact on the business if the decision is publicly disclosed through the news media.
  - All of the above.

ANS: D                      MSC: AACSB Reflective Thinking | AACSB Ethics

20. Don runs a construction company. He hires people to work on his projects and tells them they are all "independent contractors." Legally, they are not independent contractors since Don tells the workers when to come to work, how long to work, what days to work, what they are to do each day, and so forth. At the end of each week, Don pays his workers in cash rather than with a check. Also, he does not withhold any state, federal or local withholding tax (since he claims the workers are independent contractors). Which statement is correct?
- Don has committed both unethical and illegal conduct.
  - Don has committed unethical conduct, but it is legal.
  - Don has committed ethical conduct but it is illegal.
  - Don has committed both ethical and legal conduct.

ANS: A                      MSC: AACSB Reflective Thinking | AACSB Ethics

21. Which of the following is NOT a question in the ethics checklist?
- How much profit will an alternative earn for my company?
  - Who are the stakeholders?
  - Is more than one alternative right?
  - What are the facts?

ANS: A                      MSC: AACSB Analytic | AACSB Ethics

22. Nortron Corporation wants to create an ethical environment in its company. Which of the following has been found to help foster a sense of ethics within an organization?
- The company may develop a formal, written ethics code.
  - The company may institute a formal ethics training program for the employees.
  - The top executives may provide good examples by behaving ethically themselves.
  - All of the above alternatives have been used by U.S. companies to create an ethical environment in their organizations.

ANS: D                      MSC: AACSB Reflective Thinking | AACSB Ethics

23. Lois is running for political office. She trails the incumbent and decides to start running a series of "attack ads." The attack ads are very effective and one week before the election it appears that she has drawn even with her opponent. Lois admits that the attack ads were exaggerations and contained some distortions. Which statement is correct?
- Lois has engaged in unethical behavior.
  - Lois has engaged in ethical behavior since she has an obligation to her supporters to run a campaign that will help her get elected.
  - It is not possible to determine whether Lois's attack ads were ethical or unethical.
  - Assuming Lois's attack ads were unethical, her conduct is justified and proper if she to gets elected.

ANS: A                      MSC: AACSB Reflective Thinking | AACSB Ethics

24. Jeffrey Sachs, an economist and adviser to developing nations, has expressed concern that:
- there are too few sweatshops.
  - there are too many sweatshops.
  - children are being forced to work in developing nations.
  - the United States is not involved enough in forcing developing nations to eliminate both child labor and sweatshops.

ANS: A                      MSC: AACSB Analytic | AACSB Ethics

25. John discovered his company's accountant was "skimming" money from the business. The accountant agreed to pay John a one-time payment of \$25,000 not to report the skimming to company officials. The accountant promised she would pay the money back when she could. John accepted the money and never reported what he knew. A year later the accountant was fired when the embezzlement was discovered. She was also prosecuted for theft. The payment to John was never discovered. Which statement is correct?
- John's act was unethical and illegal.
  - John's act was unethical but not necessarily illegal.
  - John's act was ethical since he believed the accountant would return the money; however, it was illegal.
  - Based on the facts, John's conduct was both ethical and legal given the special circumstances of this case.

ANS: A                      MSC: AACSB Reflective Thinking | AACSB Ethics

## ESSAY

1. Oxtron, Inc. arranged for two employees, Kaiya and Gary, to attend "The Business Ethics 2006 Conference: Maintaining Credibility" in New York City. Although Gary goes to New York, he does not participate in the conference. Instead, he takes in the local attractions. Kaiya fully participated in the conference. Use the ethics checklist to decide what Kaiya should do about Gary's failure to participate in the conference.

ANS:

According to the ethics checklist, the following questions should be considered:

- What are the facts?
- What are the critical issues?
- Who are the stakeholders?
- What are the alternatives?
- What are the ethical implications of each alternative?
  - Is it legal?
  - How would it look in the light of day?
  - What are the consequences?
  - Does it violate important values?
  - Does it violate the Golden Rule?
  - Is it just?
  - Has the process been fair?
- Is more than one alternative right?
  - Which values are in conflict?
  - Which of these values are most important?
  - Can you find an alternative that is consistent with your values?

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics



2. Tianhui was recently hired as a sales representative by Oxtron, Inc. Before leaving on his first sales trip, a number of the other sales representatives take Tianhui aside and tell him that it is customary for the sales representatives to "pad" (increase) their expense reports each month by 20%. Use the ethics checklist to decide what Tianhui should do about the expense report he submits to Oxtron.

ANS:

According to the ethics checklist, the following questions should be considered:

- What are the facts?
- What are the critical issues?
- Who are the stakeholders?
- What are the alternatives?
- What are the ethical implications of each alternative?
  - Is it legal?
  - How would it look in the light of day?
  - What are the consequences?
  - Does it violate important values?
  - Does it violate the Golden Rule?
  - Is it just?
  - Has the process been fair?
- Is more than one alternative right?
  - Which values are in conflict?
  - Which of these values are most important?
  - Can you find an alternative that is consistent with your values?

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics

3. Identify and discuss five values that are almost universal.

ANS:

The five universal values discussed in the textbook are:

- (a) Consideration. Consideration means being aware of and concerned about other people's feelings, desires, and needs. A considerate person is able to imagine how he would feel in someone else's place and to react accordingly.
- (b) Courage. Courage is the strength to act even if danger exists and the person is fearful.
- (c) Integrity. This quality means being sincere, honest, reliable, and loyal.
- (d) Responsibility. Responsibility means being trustworthy and dependable. A responsible person meets commitments and lives up to promises.
- (e) Self-control. A person with self-control is able to resist temptation and does not over-indulge.

MSC: AACSB Communication | AACSB Ethics

4. Li is the vice president of marketing for Felson, Inc., a manufacturer of alcoholic beverages. One of Li's directors has suggested that a cartoon character be used to promote a new alcoholic beverage. Use the ethics checklist to decide whether Li should follow the director's suggestion.

ANS:

According to the ethics checklist, the following questions should be considered:

- What are the facts?
- What are the critical issues?
- Who are the stakeholders?
- What are the alternatives?
- What are the ethical implications of each alternative?
  - Is it legal?
  - How would it look in the light of day?
  - What are the consequences?
  - Does it violate important values?
  - Does it violate the Golden Rule?
  - Is it just?
  - Has the process been fair?
- Is more than one alternative right?
  - Which values are in conflict?
  - Which of these values are most important?
  - Can you find an alternative that is consistent with your values?

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics

5. Oxtron, Inc. is considering establishing a program that actively encourages ethical behavior. What reasons would support Oxtron's adoption of an ethics program?

ANS:

The following reasons support an ethics program: (1) society as a whole benefits from ethical behavior; (2) people feel better when they behave ethically; (3) unethical behavior can be very costly; and (4) ethical behavior can increase productivity, job stability, and profits.

MSC: AACSB Communication | AACSB Reflective Thinking | AACSB Ethics