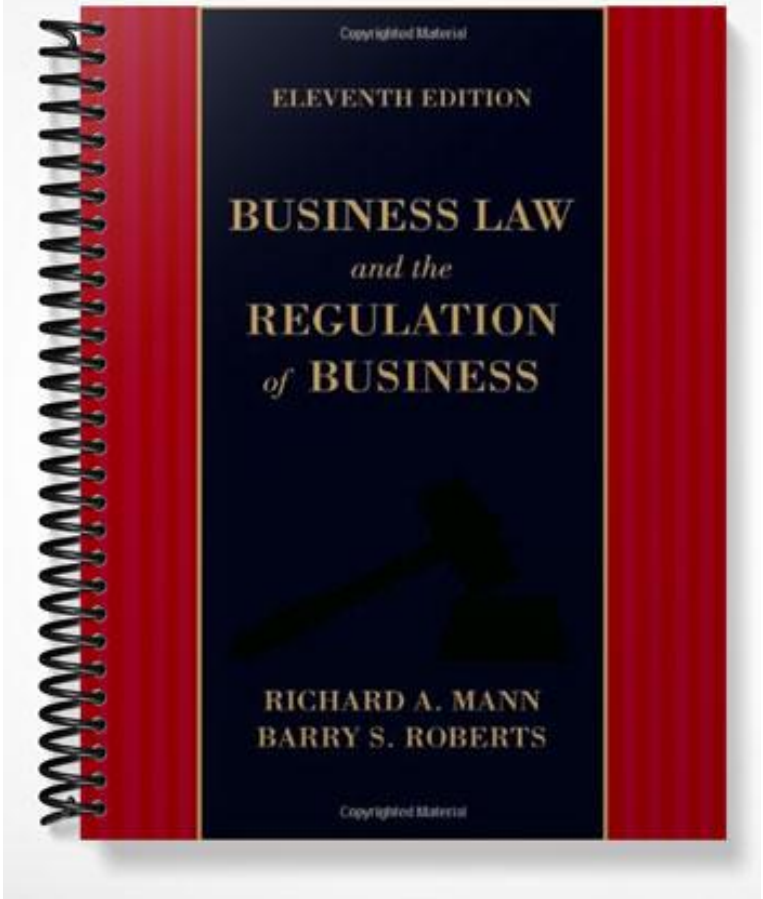
TEST BANK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BUSINESS LAW
and the
REGULATION
of BUSINESS
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Chapter 2—Business Ethics

TRUE/FALSE

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

   ANS: T DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Introduction
   KEY: Bloom's: Knowledge

2. Like legal analyses, analyses of ethics have a central authority and follow clear-cut, universal standards.

   ANS: F DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Introduction
   KEY: Bloom's: Comprehension

3. Business ethics, the study and determination of what is right and good in business settings, has a special set of ethical principles that applies only to the world of business.

   ANS: F DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Introduction
   KEY: Bloom's: Comprehension

4. As a result of regulations by the Securities and Exchange Commission and the stock exchanges, the boards of directors of the great majority of publicly held corporations consist primarily of outside directors, and these corporations have audit committees of outside directors.

   ANS: T DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic STA: AICPA: BB-Legal
   TOP: A-Head: Ethical Responsibilities of Business KEY: Bloom's: Comprehension

5. An ethical relativist looks to a central authority, such as the Bible, to guide her in ethical decision making.

   ANS: F DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Comprehension

6. It is possible for legal acts to be immoral.

   ANS: T DIF: Difficulty: Easy
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Law versus Ethics
   KEY: Bloom's: Comprehension

7. Situational ethics, unlike ethical relativism, judges a person's ethics, but first looks at the decision or act from the perspective of the actor.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Analysis

8. Jeremy Bentham was a proponent of utilitarianism.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

9. 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.

ANS: F DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories | A-Head: Ethical Standards in Business
KEY: Bloom's: Analysis

10. A leading proponent of the utilitarian approach to ethics was the eighteenth century philosopher Immanuel Kant.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

11. Deontologists are criticized for rigidity and excessive formalism.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

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

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

13. Kant's philosophy rejects the idea that the end justifies the means.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

14. Harvard philosopher John Rawls stressed liberty as the most important obligation owed by a society to its members.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

15. To a libertarian, it is not unjust for some people to accumulate fortunes while others live in poverty.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

16. Although corporations are not persons but instead are artificial entities created by the state, it is clear that they can and should be held morally accountable.

ANS: F DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic STA: AICPA: BB-Legal
TOP: A-Head: Ethical Standards in Business KEY: Bloom's: Analysis

17. Act utilitarianism supports rules that, on balance, produce the greatest good.

ANS: F DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Analysis

18. According to Milton Friedman, the social obligation of a corporation is to return as much money as possible to its direct stakeholders.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Knowledge

19. Kant's categorical imperative is a variation of the Golden Rule.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

20. The essential characteristic of ethical fundamentalism is a reliance upon a central repository of wisdom.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

21. 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.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic

STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

22. What is unjust to a social egalitarian will also be unjust to a libertarian.

ANS: F DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Analysis

23. 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.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Analysis

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.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Application

25. Harvard philosopher, Robert Nozick, stressed liberty, not justice, as the most important obligation that society owes its members.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

26. Kant's approach, like that of ethical fundamentalists, asserts that universal laws stem from the direct pronouncements of God.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

27. Bill would like to propose to the board of directors of Bizmarc, Inc., that the corporation distribute one percent of its pre-tax yearly income to feed the poor. To Milton Friedman and others, Bill's proposal might be considered unethical, because it violates the purpose for which the corporation was established.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Reflective Thinking
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Application

28. Arguments exist which oppose business involvement in socially responsible activities. These arguments involve profitability, unfairness to employees and shareholders, accountability, and lack of expertise managing socially useful activities.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Application

29. Philosophers have found that the most effective way to develop dependable and universal methods for making ethical judgments is to fashion *a priori* guidelines.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

30. The "Television Test" is a test that is generally rejected by adherents of intuitionism.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

31. Deontological theories assess good and evil in terms of the consequences of actions.

ANS: F DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

32. Utilitarian notions underlie cost-benefit analysis.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

33. Ethical questions in business settings include corporate governance, whistle-blowing, shareholder voting, and management's duties to shareholders.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Introduction
KEY: Bloom's: Synthesis

34. Ethical relativism holds that when any two individuals or cultures differ regarding the morality of a particular issue or action, they may both be correct because morality is relative.

ANS: T DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Application

35. Psychologist Lawrence Kohlberg observed that people progress through sequential stages of moral development according to the two major variables of age and reasoning.

ANS: T DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

MULTIPLE CHOICE

1. If a Middle Eastern culture and the American culture differ as to the morality of a particular action, under ethical relativism:
   a. both cultures can be 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.

   ANS: A DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Application

2. Which of the following best describes 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 just for society to take wealth earned by some citizens and distribute it to those who did not directly earn it but are in need.
   d. The fact that some people end up with fortunes while others are poor proves only that social interference is necessary to justly redistribute wealth in certain circumstances.

   ANS: A DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Synthesis

3. 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. judges persons' actions by what those persons believe is right for themselves.
   d. emphasizes justice and a central moral authority.

   ANS: B DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Analysis

4. The ethical theory that underlies cost-benefit analysis is:
   a. libertarianism.
   b. deontology.

c. utilitarianism.
d. ethical relativism.

ANS: C DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

5. How many stages are there in Kohlberg's Theory of Moral Development?
a. 2
b. 3
c. 4
d. 5

ANS: B DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

6. 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.

ANS: A DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Knowledge

7. The stakeholder model for the societal role of the business corporation:
a. is a derivative of the social contract theory.
b. holds that a corporation has the fiduciary duties of utmost loyalty and good faith to employees, customers, and suppliers, as well as shareholders.
c. All of these are correct.
d. None of these are correct.

ANS: C DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Synthesis

8. 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 society's members.
d. society should stress equality of opportunity, not results.

ANS: A DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

9. 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 actor.
   d. All of the above.

   ANS: C DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Analysis

10. 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 society's pleasure.
   a. deontologist
   b. rule utilitarian
   c. ethical fundamentalist
   d. ethical relativist

   ANS: B DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Analysis

11. 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.

   ANS: A DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
   KEY: Bloom's: Analysis

12. In a classic study published in 1932, Adolf Berle and Gardner Means concluded that great amounts of economic power had been:
   a. widely dispersed among a large number of corporations. This trend has continued steadily.
   b. widely dispersed among a large number of corporations. This trend has declined steadily.
   c. concentrated in a relatively few corporations and shareholders had become far removed from active participation in management. These trends have declined steadily.
   d. concentrated in a relatively few corporations and shareholders had become far removed from active participation in management. These trends have continued steadily.

   ANS: D DIF: Difficulty: Moderate
   NAT: BUSPROG: Ethics | BUSPROG: Analytic
   STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
   KEY: Bloom's: Analysis

13. 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.

ANS: A DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Application

14. 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. All of these are correct.

ANS: A DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Introduction
KEY: Bloom's: Comprehension

15. A major criticism of utilitarianism as an ethical theory is:
a. it is rigid.
b. in some important instances it ignores justice.
c. it results in the judgment that a person's actions are always moral for that person and therefore exempt from punishment.
d. it is excessively formal.

ANS: B DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Comprehension

16. 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 correct.

ANS: D DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Comprehension

17. Nineteen-year-old Martin was raised in a good, Christian home and 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. Pre-conventional.
b. Conventional.
c. Post-conventional.
d. Adult.

ANS: B DIF: Difficulty: Moderate
NAT: BUSPROG: Ethics | BUSPROG: Reflective Thinking

STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
KEY: Bloom's: Application

18. 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.

    ANS: B DIF: Difficulty: Easy
    NAT: BUSPROG: Ethics | BUSPROG: Analytic
    STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
    KEY: Bloom's: Comprehension

19. Which of the following is a common criticism of ethical relativism?
    a. It promotes open-mindedness and tolerance.
    b. It 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. It is rigid and excessively formal.
    d. It is too judgmental.

    ANS: B DIF: Difficulty: Easy
    NAT: BUSPROG: Ethics | BUSPROG: Analytic
    STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
    KEY: Bloom's: Comprehension

20. 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.

    ANS: D DIF: Difficulty: Easy
    NAT: BUSPROG: Ethics | BUSPROG: Analytic
    STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
    KEY: Bloom's: Comprehension

21. 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 society's wealth.
    c. society should divide wealth based on each person's contribution.
    d. that if persons wish to act morally, they should emulate those in the society who always seem to do the right thing.

    ANS: B DIF: Difficulty: Easy
    NAT: BUSPROG: Ethics | BUSPROG: Analytic
    STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Theories
    KEY: Bloom's: Comprehension

22. 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.

ANS: C DIF: Difficulty: Easy
NAT: BUSPROG: Ethics | BUSPROG: Analytic
STA: AICPA: BB-Critical Thinking TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Comprehension

ESSAY

1. Is telling a lie unethical? Analyze whether telling a lie is unethical in terms of each of the following ethical theories:
   a. The deontological approach.
   b. Utilitarianism.
   c. Intuitionism and the "Television Test."
   d. Ethical relativism.
   e. Ethical fundamentalism.

   ANS:
   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 that could 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 if one could not support the right of all colleagues to lie to one another. Kant's approach differs from that of ethical fundamentalism in that it is premised on man's rationality and not on principles handed down from above.
   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.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories
KEY: Bloom's: Synthesis

2. Neal is 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 seize Bonanza and liquidate its assets to pay creditors and depositors. Because Bonanza is federally insured, 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.

   ANS:
   Student answers will vary 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 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 this 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.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories
KEY: Bloom's: Synthesis

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

ANS:
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, a fairness 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, Marxism judges society by how it is organized and how it distributes goods and services. Social egalitarians are similar to Marxists in that they believe society should provide all persons with equal amounts of goods and services regardless of the contribution each makes to increase society's wealth.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories
KEY: Bloom's: Synthesis

4. Discuss each of the following ethical theories with regard to whether you accept or reject them for your own actions and decisions.
   a. Intuitionism and the "Television Test."
   b. Rule Utilitarianism.
   c. Ethical Relativism.

d. Ethical Fundamentalism.
e. The deontological approach.
f. Milton Friedman's ideas on corporate governance.

ANS:
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.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories
KEY: Bloom's: Evaluation

5. Discuss which of the social 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

ANS:
Students' answers will vary. The goal of this question is to have the students apply what they are learning to develop their own views. 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 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. To libertarians, it is unjust to take wealth earned by some citizens to distribute to others who did not earn it. (1) This theory appeals to me because... (2) This theory does not appeal to me because...

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Theories
KEY: Bloom's: Evaluation

6. 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.

ANS:

Kohlberg's first stage of moral development is the *preconventional level*. At this level, a person would be acting out of fear of punishment. In the business setting, people would act ethically only out of fear that they would get caught and punished if they did not do so. The ramification of this stage of moral development in the adult businessperson is that if there is 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. 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.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Standards in Business
KEY: Bloom's: Synthesis

7. Discuss the arguments for and against businesses' involvement in socially responsible activities.

ANS:
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 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.

DIF: Difficulty: Challenging
NAT: BUSPROG: Ethics | BUSPROG: Communication
STA: AICPA: BB-Critical Thinking
TOP: A-Head: Ethical Responsibilities of Business
KEY: Bloom's: Synthesis