

TEST BANK

Study Guide

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Chapter 2

Ethics and Business Decision Making

TRUE/FALSE QUESTIONS

1. Ethics focuses on the way in which moral principles apply in daily life.

ANSWER: T PAGE: 47 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

2. Ethics is not concerned with the way in which moral principles are derived.

ANSWER: F PAGE: 47 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

3. Lying can violate a duty of loyalty that an employer owes to its employees.

ANSWER: T PAGE: 47 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

4. Business ethics applies only to corporations.

ANSWER: F PAGE: 47 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Risk Analysis

5. Corporate decisions affect only those who own, operate, or work for the firm.

ANSWER: F PAGE: 47 TYPE: N

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MISC: AACSB Ethics

Skill Level: AICPA Risk Analysis

6. Management's behavior sets the ethical tone of a firm.

ANSWER: T PAGE: 48 TYPE: +
MISC: AACSB Ethics Skill Level: AICPA Risk Analysis

7. Setting realistic workplace goals can reduce the probability that employees will act unethically.

ANSWER: T PAGE: 49 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Risk Analysis

8. Corporate ethical policies must be integrated throughout the firm to be effective.

ANSWER: T PAGE: 52 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Risk Analysis

9. An ethical issue involving conflicting duties can only be resolved by establishing which duties take priority over others.

ANSWER: T PAGE: 52 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

10. Management constantly faces ethical trade-offs.

ANSWER: T PAGE: 52 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Risk Analysis

11. A choice benefiting one of several groups to whom a firm owes ethical duties may adversely affect another group.

ANSWER: T PAGE: 52 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

12. Corporations owe *ethical* duties to their shareholders and their employees.

ANSWER: T PAGE: 55 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

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13. The minimal acceptable standard for ethical behavior is compliance with the law.

ANSWER: T

PAGE: 55

TYPE: N

MISC: AACSB Analytic

Skill Level: AICPA Critical
Thinking

14. An action may be legal but not ethical.
 ANSWER: T PAGE: 55 TYPE: =
 MISC: AACSB Analytic Skill Level: AICPA Critical Thinking
15. An action may be legal and ethical.
 ANSWER: T PAGE: 55 TYPE: =
 MISC: AACSB Analytic Skill Level: AICPA Critical Thinking
16. Simply obeying the law fulfills all ethical obligations.
 ANSWER: F PAGE: 55 TYPE: +
 MISC: AACSB Ethics Skill Level: AICPA Critical Thinking
17. The legality of an action is always clear.
 ANSWER: F PAGE: 56 TYPE: =
 MISC: AACSB Analytic Skill Level: AICPA Legal
18. Ignorance of the law will always excuse a business from liability for a violation of that law.
 ANSWER: F PAGE: 56 TYPE: =
 MISC: AACSB Analytic Skill Level: AICPA Legal
19. Acting in good faith gives a business firm a better chance of defending its actions in court.
 ANSWER: T PAGE: 56 TYPE: =
 MISC: AACSB Analytic Skill Level: AICPA Legal
20. Ethical standards based on religious teachings involve an element of compassion.
 ANSWER: T PAGE: 57 TYPE: N
 MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

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21. Duty-based ethical standards imply that people have basic rights.

ANSWER: T

PAGE: 57

TYPE: N

MISC: AACSB Ethics

Skill Level: AICPA Critical
Thinking

22. Duty-based ethics may be based on religious precepts or philosophical reasoning.

ANSWER: T PAGE: 57 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

23. Under the principle of rights theory, one person's set of values is as "right" as another's.

ANSWER: F PAGE: 58 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

24. In ethical terms, a cost-benefit analysis is an assessment of the negative and positive effects of alternative actions on individuals.

ANSWER: T PAGE: 58 TYPE: =
MISC: AACSB Analytic Skill Level: AICPA Risk Analysis

25. According to utilitarianism, it does not matter how many people benefit from an act.

ANSWER: F PAGE: 58 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

26. Establishing which duties take priority over others determines a firm's views on corporate social responsibility.

ANSWER: T PAGE: 59 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

27. A business firm's profits may suffer if the firm acts unethically.

ANSWER: T PAGE: 60 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

28. Businesspersons who would choose to act unethically may be deterred from doing so because of public opinion.

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ANSWER: T PAGE: 60 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

29. It is illegal to market a product that causes the firm to lose sales and profits.

ANSWER: F PAGE: 60 TYPE: N
MISC: AACSB Analytic Skill Level: AICPA Critical
Thinking

30. Often, some profits must be sacrificed for a business firm to meet its ethical responsibility.

ANSWER: T PAGE: 60 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

31. Optimum profits are the maximum profits that a business firm can realize without limits.

ANSWER: F PAGE: 60 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

32. Optimum profits are the maximum profits that a business firm can realize while staying within legal, but not ethical, limits.

ANSWER: F PAGE: 60 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical
Thinking

33. The role played by women may present some difficult ethical problems for firms doing business internationally.

ANSWER: T PAGE: 61 TYPE: N
MISC: AACSB Diversity Skill Level: AICPA Critical
Thinking

34. Bribery of foreign government officials is both an ethical and a legal issue.

ANSWER: T PAGE: 62 TYPE: =
MISC: AACSB Analytic Skill Level: AICPA Critical
Thinking

35. Some U.S. bribery laws are directed toward accountants.

ANSWER: T PAGE: 63 TYPE: =
MISC: AACSB Analytic Skill Level: AICPA Critical
Thinking

MULTIPLE-CHOICE QUESTIONS

1. Import-Export Sales, Inc., like other businesses, has duties prescribed by
- ethics and the law.
 - ethics only.
 - the law only.
 - the market only.

ANSWER: A PAGE: 46 TYPE: +
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

2. Mack is sales manager for National Products, Inc. Compared to Mack's personal activities, his business activities involve
- more complex ethical standards.
 - simpler ethical standards.
 - the same ethical standards.
 - no ethical standards.

ANSWER: C PAGE: 47 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

3. In studying business law, Professor Smith's students also study ethics in a business context. Ethics is the study of what constitutes
- financially rewarding behavior.
 - legal behavior.
 - religious behavior.
 - right or wrong behavior.

ANSWER: D PAGE: 47 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

4. Lia works for Marketing Company. Her job includes putting "spin" on the firm's successes and failures. In this context, ethics consist of
- "bad" versus "good" publicity.
 - questions of rightness and wrongness.
 - the firm's quarterly revenue.

d. whatever is legal.

ANSWER: B

PAGE: 47

TYPE: +

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

5. Mary works in the public relations department of National Sales Company. Her job includes portraying National's activities in their best light. In this context, ethics consist of
- a different set of principles from those that apply to other activities.
 - the same moral principles that apply to non-business activities.
 - those principles that produce the most favorable financial outcome.
 - whatever saves National's "face."

ANSWER: B PAGE: 47 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

6. Any decision by the management of Standard Business Corporation may significantly affect its
- operators only.
 - operators, owners, suppliers, the community, or society as a whole.
 - owners only.
 - suppliers, the community, or society as a whole only.

ANSWER: B PAGE: 47 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Risk Analysis

7. Ace Company manages its employees' retirement benefit plan. With respect to this plan, Ace has
- a fiduciary duty.
 - a subsidiary duty.
 - a utilitarian duty.
 - no duty.

ANSWER: A PAGE: 47 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Legal

8. First Financial Corporation provides other firms with capital to expand operations. Questions of what is ethical involve the extent to which First Financial has
- a legal duty beyond those duties mandated by ethics.
 - an ethical duty beyond those duties mandated by law.
 - any duty beyond those mandated by both ethics and the law.

d. any duty when it is uncertain whether a legal duty exists.

ANSWER: B PAGE: 48 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical
Thinking

Fact Pattern 2-1 (Questions 9–10 apply)

Quantity Trucking Company (QTC) owns a fleet of trucks that transports hazardous waste across the United States. Rod is a QTC driver, whom QTC knows drives longer hours than federal regulations permit. One night, Rod exceeds the limit and has an accident. Spilled chemicals contaminate Small City’s water source, forcing the residents to move away.

9. Refer to Fact Pattern 2-1. According to the reasoning of the court in Case 2.1, *In re the Exxon Valdez*, QTC is liable because
- a. harm was caused by an unfortunate accident.
 - b. QTC showed reckless disregard for Small City’s residents and others.
 - c. Rod exceeded the federal time limit.
 - d. Small City should have better protected the water source.

ANSWER: B PAGE: 48 TYPE: =
MISC: AACSB Communications Skill Level: AICPA Decision
Modeling

10. Refer to Fact Pattern 2-1. Under the reasoning and the words of the court in Case 2.1, *In re the Exxon Valdez*, QTC’s conduct might be described as
- a. “blamelessly faultless” and “unintentionally capricious.”
 - b. “highly reprehensible” and “intentionally malicious.”
 - c. “irregardlessly respectful” and “respectfully regardless.”
 - d. “uniquely preoccupied” and “wantonly sleepless.”

ANSWER: B PAGE: 48 TYPE: =
MISC: AACSB Communications Skill Level: AICPA Decision
Modeling

11. ABC Communications, Inc., needs to cut costs by downsizing. In determining which employees to lay off, ABC will be concerned primarily with
- a. its ethical duty to long-term employees and the legality of discharging older workers only.
 - b. its ethical duty to long-term employees, its profit margin, and the legality of discharging older workers.
 - c. the legality of discharging older workers only.
 - d. none of the above.

ANSWER: B PAGE: 52 TYPE: +

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

12. Jill lies to her family. According to legal and ethical principles, this is
- illegal only.
 - illegal and unethical.
 - neither illegal nor unethical.
 - unethical only.

ANSWER: D PAGE: 55 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

13. Delta Equity Corporation provides other firms with capital to expand operations. If Delta strictly complies with existing laws, the firm will
- fulfill *all* business ethics obligations.
 - fulfill *no* business ethics obligations.
 - fulfill *some* business ethics obligations.
 - not need to fulfill *any* business ethics obligations.

ANSWER: C PAGE: 55 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

14. Alpha, Inc., makes and sells a variety of household products. With a fair amount of certainty, Alpha's decision makers can predict whether a given business action would be legal in
- all situations.
 - many situations.
 - no situations.
 - practically no situations.

ANSWER: B PAGE: 56 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Legal

15. Steve, the human resources director for Total Personnel Corporation, attempts to comply with the law in dealing with applicants and employees. One of the challenges Steve faces is that the legality of an action is
- always clear.
 - never clear.
 - sometimes clear.

d. usually clear.

ANSWER: C PAGE: 56 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Legal

16. Eve, the chief executive officer of Federated Corporation (FC), wants to ensure that FC's activities are legal and ethical. The best course of Eve and FC is to act in

- a. good faith.
- b. ignorance of the law.
- c. regard for the firm's shareholders only.
- d. their own self interest.

ANSWER: A PAGE: 56 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Decision
Modeling

17. In business negotiations, Beth, the chief executive officer of Design Associates, Inc., follows "The Golden Rule," which

- a. encourages the accumulation of as much personal wealth as possible.
- b. mandates compassionate treatment of others in all situations.
- c. permits taking advantage of others in financial terms.
- d. requires an increase of business profits over a certain period.

ANSWER: B PAGE: 57 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical
Thinking

18. Matt, vice-president of sales for National Resources, Inc., adheres to religious ethical standards. Their application involves an element of

- a. compassion.
- b. cost-benefit analysis.
- c. discretion.
- d. utilitarianism.

ANSWER: A PAGE: 57 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical
Thinking

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19. Kit follows certain religious principles. With respect to the behavior of Kit and other adherents of her religion, its principles are most likely
- a. absolute.
 - b. changeable.
 - c. flexible.
 - d. vague.

ANSWER: A

PAGE: 57

TYPE: =

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

20. Kent, an accountant for Engineering Associates, Inc., attempts to apply the duty approach to ethical reasoning in conflicts that occur on the job. This approach is based on the idea that a person must
- achieve the greatest good for the most people.
 - avoid unethical behavior regardless of the consequences.
 - conform to society's ethical standards.
 - place his or her employer's interest first.

ANSWER: B PAGE: 57 TYPE: =
 MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

21. Tina, the chief financial officer for USA Products Corporation, attempts to apply Christian precepts in making ethical decisions and in doing business. In applying duty-based ethical standards that are derived from a religious source, Tina would consider the motive behind an act to be
- irrelevant.
 - the least important consideration.
 - the most important consideration.
 - the only consideration.

ANSWER: A PAGE: 57 TYPE: =
 MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

22. World Distribution Corporation suggests that its employees apply the "categorical imperative" to ethical issues that arise at work. This requires that the employees
- categorize the issues according to legality, morality, and profitability.
 - consider only the benefits that would accrue to them personally.
 - look only at the result, regardless of the means to attain it.
 - weigh the consequences that would follow if everyone took the same action.

ANSWER: D PAGE: 58 TYPE: =
 MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

23. In making business decisions, Owen, a certified financial planner with Private Investment Corporation, attempts to apply his belief that all persons have fundamental rights. This is
- a. a religious rule.
 - b. the categorical imperative.
 - c. the principle of rights.
 - d. utilitarianism.

ANSWER: C PAGE: 58 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

24. Rob, the owner of Superior Engineering, Inc., adheres to the “principle of rights” theory. Under this theory, a key factor in determining whether a business decision is ethical is how that decision affects
- a. the right determination under a cost-benefit analysis.
 - b. the rights of others.
 - c. the “right” thing to do.
 - d. the right to make a profit.

ANSWER: B PAGE: 58 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

25. Holly, a lawyer on the staff of International Group, applies the utilitarian theory of ethics in business contexts. Utilitarianism focuses on
- a. moral values.
 - b. religious beliefs.
 - c. the consequences of an action.
 - d. the nature of an action.

ANSWER: C PAGE: 58 TYPE: =
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

26. Bob, research manager for Agri-Products, Inc., applies utilitarian ethics to determine that an action is morally correct when it produces
- a. the greatest good for Bob.
 - b. the greatest good for the most people.
 - c. the least good for the fewest people.

d. the least good for the most people.

ANSWER: B

PAGE: 58

TYPE: =

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

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27. In making decisions for United Merchandising Company, Jay uses a cost-benefit analysis. This is part of
- duty-based ethics.
 - Kantian ethics.
 - the principle of rights.
 - utilitarianism.

ANSWER: D PAGE: 58 TYPE: N
MISC: AACSB Ethics Skill Level: AICPA Critical Thinking

28. Harry, a vice-president of International Pharmaceuticals, Inc., does *not* apply utilitarianism to business ethical issues. One problem with utilitarianism is that it
- gives business profits priority over production costs.
 - ignores the practical costs of a given set of circumstances.
 - justifies human costs that many find unacceptable.
 - requires complex cost-benefit analyses of simple situations.

ANSWER: C PAGE: 58 TYPE: =
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

29. In deciding questions of corporate social responsibility, Digital Services, Inc., is concerned with
- how the corporation can best fulfill its duty to society.
 - the effect on corporate profits of ignoring any duty to society.
 - whether the corporation owes a duty to society.
 - all of the above.

ANSWER: A PAGE: 59 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

30. Superior Corporation engages in ethical behavior solely for the purpose of getting good publicity and thereby increasing profits. Superior is
- acting unethically in its pursuit of publicity.
 - acting unethically in its pursuit of profits.
 - acting unethically in its setting of priorities.
 - not acting unethically.

ANSWER: D

PAGE: 60

TYPE: N

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

31. Applied Business Corporation makes and markets its products nationwide. To be considered socially responsible when making a business decision, Applied must take into account the needs of
- a. its consumers, the community, and society only.
 - b. its employees and owners only.
 - c. its employees, owners, consumers, the community, and society.
 - d. no one.

ANSWER: C PAGE: 60 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Risk Analysis

32. A common ethical dilemma faced by the management of General Business Corporation involves the effect that its decision will have on
- a. one group as opposed to another.
 - b. the firm's competitors.
 - c. the government.
 - d. all of the above.

ANSWER: A PAGE: 60 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

33. The managers of Beta, Inc., in marketing Beta's products, attempt to strike a balance between profitability and ethical responsibility. The profits that Beta realizes within these limits are
- a. maximum.
 - b. minimum.
 - c. nonexistent.
 - d. optimum.

ANSWER: D PAGE: 60 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Critical Thinking

34. International Manufacturing Corporation's side payments to government officials in exchange for favorable business contracts in foreign countries are considered, in the United States,
- a. illegal and unethical.
 - b. illegal only.
 - c. neither illegal nor unethical.

d. unethical only.

ANSWER: A

PAGE: 62

TYPE: =

MISC: AACSB Reflective

Skill Level: AICPA Critical
Thinking

35. To assist in detecting illegal bribes, Eagle, Inc., and all U.S. companies, must
- conceal financial records that reveal past bribes.
 - keep records that “accurately and fairly” reflect financial activities.
 - make bribes through third parties rather than directly to officials.
 - permit payments to foreign officials that are unlawful in that country.

ANSWER: B PAGE: 63 TYPE: N
MISC: AACSB Analytic Skill Level: AICPA Legal

ESSAY QUESTIONS

1. Fran, an executive with Global Corporation, has to decide whether to market a product that might have undesirable side effects for a small percentage of users. What is the balance that must be struck in her deciding whether to sell the product?

ANSWER: When a corporate executive has to decide whether to market a product that might have undesirable side effects for a small percentage of users but that would be beneficial for most users, the decision turns on the benefit to the many versus the harm to the few. Of course, all possible precautions should be taken to protect the few. A more specific answer depends in part on which system of ethics is applied. From a utilitarian perspective, under a cost-benefit analysis, if the product were sold, it could benefit the greatest number of persons—future and current employees, as well as shareholders, and most consumers. If there was “bad” publicity, and it was adverse enough to reduce sales, however, more persons could benefit from the decision not to market the product.

PAGES: 55–59 TYPE: N
MISC: AACSB Reflective Skill Level: AICPA Decision Modeling

2. Kitchen Appliances, Inc., markets a product that is capable of seriously injuring consumers who misuse the product in a foreseeable way. Does the firm owe an ethical duty to take this product off the market? What conflicts might arise if the firm stops selling this product?

ANSWER: Ethical behavior can sometimes generate sufficient good will to warrant practicing it out of a desire for increased profits. By the same to-

ken, unethical behavior can sometimes generate enough bad publicity to warrant avoiding it out of the same desire. A business firm's activities that are perceived as ethical and receive wide publicity can benefit the firm's owners in the short run-and even in the long run if the firm's enhanced public image continues to attract more consumers to its products. There is nothing unethical about making a profit. It is the behavior that generates the profit that can be questionable. Business ethics thus has a practical element. A business firm should act in its best interest. A firm interested in profits should also be interested in the public's opinion. Of course, it is not a company's fault when consumers misuse its product. If continuing to sell a product is not a strict violation of the law, stopping its sale would likely reduce profits. This could impact the firm's owners, employees, and others. But suspending sales could reduce injuries, and it could lead to increased profits from the sales of other products, if the suspension stops negative publicity. When a business entity decides to respond to what it sees as a moral or ethical obligation by removing a product from the market, an ethical conflict is raised between the firm and its employees and between the firm and its shareholders. This conflict arises directly out of the impact that the decision has on the firm's profits. If meeting this perceived obligation increases the firm's profitability, then all parties "win" and the dilemma would be easily resolved in favor of "doing the right thing."

PAGES: 55-61

MISC: AACSB Reflective

TYPE: N

Skill Level: AICPA Decision
Modeling