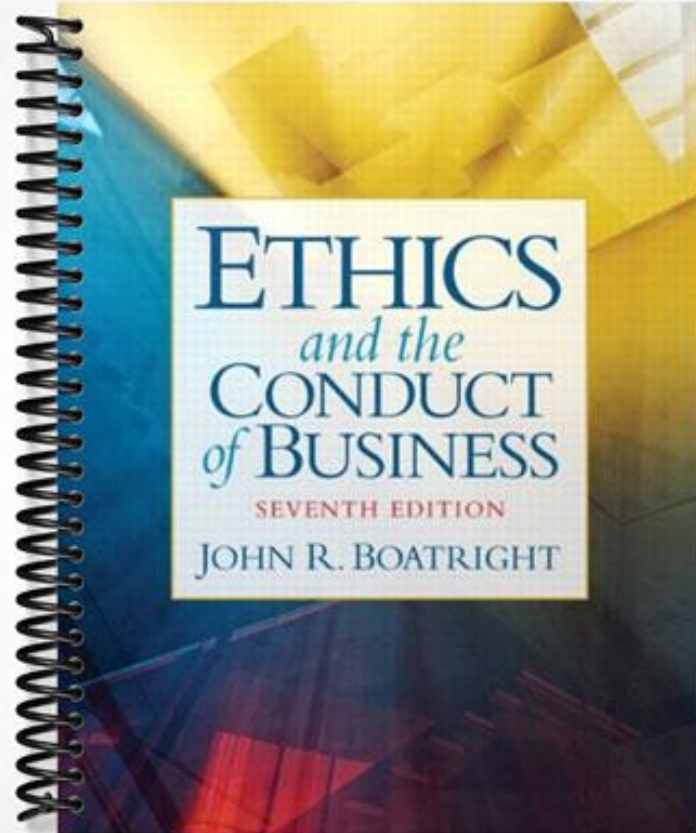


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*for*

Boatright

Ethics and the Conduct of  
Business


Seventh Edition

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ISBN-10: 0-20-505340-8  
ISBN-13: 978-0-205-05340-7

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# Chapter 1

## *Ethics in the World of Business*

### CHAPTER SUMMARY

Business ethics is concerned with identifying and understanding the ethical issues that arise in business and with developing the knowledge and skills needed by a practicing manager to address these issues and to make sound business decisions—that is, decisions that are sound from both an ethical and a business perspective. Ethical issues are an inevitable element of business decision making and are deeply intertwined with managerial practice and economic activity generally. Business ethics is important for managers because many business decisions upon which the success of individual managers, business organizations, and, indeed, the whole economic system depend, are involved in ethical issues. Both economics and law are important guides for business decision making, but they are not complete. Nor is business ethics understood merely as the treatment of ethical issues from a philosophical perspective. As the work of psychologists and sociologists on organizational misconduct show, it is not enough merely to determine a right course of action. Misconduct in organizations is also the result of flaws in individual and organizational decision making that can be corrected only by changes in decision-making processes. Practicing managers must also address the larger challenge of preventing misconduct within organizations.

### CHAPTER OBJECTIVES

- Explain how business decision-making can run afoul of ethical concerns.
- Describe the kinds of decisions that are characteristic of the various levels of business organization.
- Describe the relationship between ethics and the law.

### SUGGESTED DISCUSSION PROMPTS

1. What types of ethical concerns do decision-makers at the management level need to take into account?
2. What types of ethical concerns do decision-makers at lower organizational levels need to take into account?
3. How would you respond to someone who says that a business should always do whatever is in its economic interests?
4. What is wrong with the thought that abiding by the law is all the ethics that a businessperson needs to worry about?
5. How does specialized knowledge come into play in the management of ethics?

## ASSESSMENT FOR IN-CLASS USE

The following assessment has been created for in-class use. This assessment may be available through Pearson's MyTest website—allowing for easy access for creating your own tests. This assessment may also be offered in a Blackboard/Angel/D2L/WebCT package. *Please contact your local Pearson sales representative to learn about the options available. Visit, <http://www.pearsonhighered.com/relocator>.*

### Multiple Choice Questions

*Difficulty: 1 = Easy; 2 = Medium; 3 = Challenging*

Choose the BEST possible answer for each of the following.

1. In many cases, rules of business ethics can be determined by \_\_\_\_\_.
- A. applicable laws
  - B. company guidelines
  - C. economic requirements
  - D. rules of conduct that apply in everyday life

*Answer: D*

2. The economic character of business can be seen in its \_\_\_\_\_.
- A. trading characteristics
  - B. ethical dimensions
  - C. personal aspects
  - D. legal guidelines

*Answer: A*

3. Organization in business is characterized mainly by its \_\_\_\_\_.
- A. rules
  - B. hierarchy
  - C. profits
  - D. products

*Answer: B*

4. Decision making in business occurs at various distinctive \_\_\_\_\_.
- A. places
  - B. levels
  - C. objectives
  - D. profits

*Answer: B*

5. It is possible for there to be unethical actions that are not \_\_\_\_\_.
- A. illegal
  - B. wrong
  - C. avoidable
  - D. harmful

*Answer: A*

6. Economic reasoning describes how we \_\_\_\_\_.
- A. ought to reason
  - B. prioritize our desires
  - C. reason when pursuing our goals
  - D. would reason if we could have whatever we wanted

*Answer: C*

7. Adam Smith's economic theory is based on which of the following assumptions?
- A. People want to promote each others' interests.
  - B. Morality is not relevant to economic concerns.
  - C. Free markets will fix their own ethical problems.
  - D. People will behave rationally as they pursue their interests.

*Answer: D*

8. What fact does the "ultimatum bargaining game" demonstrate?
- A. It is often rational to price products below their market value.
  - B. Free markets will usually self-regulate.
  - C. Many people do not understand economics.
  - D. Many people would rather not trade than be treated unfairly.

*Answer: D*

9. The school of thought that says that law and ethics govern two different realms is wrong because \_\_\_\_\_.
- A. ethics applies to every field of life
  - B. anything that is legal is also ethical
  - C. anything that is illegal is also unethical
  - D. the law governs every aspect of life

*Answer: A*

10. It is not ethically sufficient to obey the law because \_\_\_\_\_.
- A. the law does not apply to business in general
  - B. ethical constraints sometimes require that the law be ignored
  - C. ethics goes beyond what can be legally codified
  - D. the law itself is stricter than ethics

*Answer: C*

### *Essay Questions*

1. What is economic efficiency, and in what ways might the pursuit of economic efficiency be unethical?
2. Describe and explain an example of a business decision that would be unethical even though it is legal.
3. In what ways does it benefit businesses to pursue ethical choices beyond what they are legally required to do?



## Chapter 2

### *Ethical Decision Making*

#### CHAPTER SUMMARY

Ethical decision making in business is often difficult and complex. Some situations are easily handled because what one ought to do or what is right and wrong are evident. Those situations that give us pause or produce moral anguish require careful thought and ultimately an ability to engage in ethical reasoning. This chapter contributes to an understanding of ethical decision making by offering a division of business ethics into two parts: an ethics of the market and an ethics of roles and relationships, including firms. In business, we deal with some parties purely as market actors who are on the other side of a market transaction or exchange. For such market activity, certain moral rules or standards apply. Much of business, however, involves roles and relationships and takes place in firms or organizations. These roles, relationships, and firms arise in a market, but, by mutual agreement in a market, we take ourselves out of the market and govern our actions by a different "ethics," the ethics of these roles and relationships.

When we attempt to think through the ethical issues that arise in business, we are engaging in ethical reasoning, which may be conducted on different levels. Ethical theories, which are presented in the next chapter, can guide ethical reasoning on the highest level by providing the most comprehensive and fundamental grounds for our moral beliefs and judgments. Fortunately, substantial moral arguments can be constructed that do not require an understanding of these theories. Most of our everyday ethical reasoning employs familiar ethical concepts and principles that can be readily understood and applied. Accordingly, this chapter provides a framework of seven basic ethical principles that are sufficient for most business decision making. For those who seek more, though, the next chapter provides a survey of the main philosophical theories of ethics.

#### CHAPTER OBJECTIVES

- Identify the ethical duties and obligations of business that arise from the market.
- Identify the ethical duties and obligations of business that arise from roles and relationships.
- Describe the philosophical bases of ethical reasoning.
- Describe the psychological bases of ethical reasoning.

#### SUGGESTED DISCUSSION PROMPTS

1. What is ethically required of participants in a market economic system?
2. In what ways do participants in a market system have to depend upon each other?
3. In what ways do ethical considerations work against perfect operation of a market economy?
4. How does the prisoner's dilemma reflect the limitations of a free market system?
5. What capacities are required of an agent to engage in ethical reasoning?

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### Multiple Choice Questions

*Difficulty: 1 = Easy; 2 = Medium; 3 = Challenging*

Choose the BEST possible answer for each of the following.

1. A market economy is based fundamentally on \_\_\_\_\_.
- A. ethical motivations
  - B. the profit motive
  - C. human welfare
  - D. manufacturing

*Answer: B*

2. A market with perfect competition would require \_\_\_\_\_.
- A. agents to not be rational
  - B. that there be no contracts
  - C. that ethics not be necessary
  - D. ethical guidelines to be legally codified

*Answer: C*

3. Fraud is unethical because \_\_\_\_\_.
- A. all parties must have access to pertinent information
  - B. no one may be permitted to profit too much
  - C. market economies require freedom of action
  - D. the market requires everyone to further their own interests

*Answer: A*

4. The difference between *Homo economicus* and actual people is that \_\_\_\_\_.
- A. *Homo economicus* is capable of making any decision
  - B. *Homo economicus* pursues many different interests
  - C. actual people pursue their own self-interest
  - D. actual people are less than perfectly rational

*Answer: D*

5. A market economy alone cannot sustain public goods because \_\_\_\_\_.
- A. no one would want to take advantage of public goods
  - B. everyone would be free riders if they could be
  - C. people would try to sell each other public goods
  - D. participants in a market economy are imperfectly rational

*Answer: B*

6. Market outcomes lead to unequal outcomes mainly because \_\_\_\_\_.
- A. it involves random processes
  - B. participants have differing levels of skill
  - C. free markets are inherently unjust
  - D. there is government interference

*Answer: B*

7. A fiduciary has the special responsibility to \_\_\_\_\_.
- A. care for another's financial interests
  - B. sell goods as efficiently as possible
  - C. provide as much information as possible
  - D. take a professional interest in another's success

*Answer: A*

8. The ethical requirements that are specific to professionals arise in part from \_\_\_\_\_.
- A. their duty not to profit at others' expense
  - B. the implicit contract that they have with other professionals
  - C. the duties they owe to their governing association
  - D. their specialized knowledge and responsibilities

*Answer: D*

9. The internal workings of firms are founded on \_\_\_\_\_.
- A. markets
  - B. agents
  - C. roles
  - D. relationships

*Answer: D*

10. The ethical concept of dignity most centrally involves \_\_\_\_\_.
- A. treating all persons equally
  - B. disclosing all information that is needed by others
  - C. recognizing the intrinsic value of persons or other entities
  - D. behaving with high standards of virtue

*Answer: C*

### *Essay Questions*

1. What are the basic components of a market system, and what assumptions are made about human behavior?
2. What is the difference between a fiduciary and an agent? What special obligations are characteristic of a fiduciary that is not an agent?
3. What are the required components of the moral point of view, and how are they exercised in a business setting?