

## Business & Professional Ethics for Directors, Executives & Accountants, 6e

### Multiple Choice Questions

#### Chapter 2 Ethics & Governance Scandals

1. As a result of the spectacular stock market crash in 1929, the government implement the *Securities Act of 1933*, the *Securities Act of 1934*, as well as which of the following acts:
  - a. *Glass-Steagall Act*
  - b. *Investment Advisers Act*
  - c. *Gramm-Leach-Bliley Act*
  - d. All of the above
  - e. Only a and b

ANSWER: e

2. In 1984, Edward Freeman published an article on stakeholder theory. Which of the following is not true?
  - a. A firm needs the support of its stakeholders to enhance the firm's reputation.
  - b. Stakeholder theory took years to mature.
  - c. Stakeholder theory is not a useful framework for those interested in governance.
  - d. Firms need stakeholders to achieve their corporate objectives.
  - e. Stakeholder theory occurred at the same time as the rise in social and corporate activism.

ANSWER: c

3. Which of the following is not covered under the *Sarbanes-Oxley Act of 2002 (SOX)*?
  - a. The responsibilities of shareholders
  - b. The responsibilities of the board of directors
  - c. The responsibilities of management
  - d. The responsibilities of auditors
  - e. Conflicts of interest

ANSWER: a

4. The overall requirement of the Internal Revenue Service *Circular 230* is to ensure that tax professionals:
  - a. Know their clients
  - b. Always develop tax plans for their clients
  - c. Make tax planning suggestions that, even if they don't have a chance of success, will save the client some money in the short-term
  - d. Never develop tax shelters
  - e. Only be professional accountants

ANSWER: a

5. A collateralized debt obligation (CDO):
- Is an insurance policy that any investor can purchase
  - Is a bond that is secured by a portfolio of mortgages
  - Protects an investor in the event that the issuer of the mortgage defaults on the contract
  - Acts as a hedge against changes in interest rates
  - Were outlawed with the passage of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

ANSWER: b

6. Which of the following is not a sign of an ethical collapse within an organization, according to Marianne Jennings?
- Pressure to meet financial goals
  - Hubris
  - Nepotism, favoritism and hiring sycophants
  - An open and candid organizational culture
  - Weak boards of directors

ANSWER: d

7. The *U.S. Federal Sentencing Guidelines* were introduced in 1991 to:
- Help judges formulate sentences.
  - Avoid sentences that are too light.
  - Signal potential sentences to executives and directors.
  - Encourage executives and directors to avoid environmental damage.
  - All of the above.

ANSWER: e

8. Due diligence programs developed to reduce penalties levied under the *U.S. Federal Sentencing Guidelines* for environmental harm did not include:
- Awareness programs for employees.
  - Guidelines for employees.
  - Compliance oversight by corporate officials.
  - Rewards for non-compliance.
  - Encouragement for whistleblowers.

ANSWER: d

9. Which of the following financial crises or fiascos were not related to the Subprime Lending Crisis?
- Bear Stearns
  - Lehman Brothers
  - Bernie Madoff

- d. AIG
- e. Galleon Group

ANSWER: c and e

10. Which was the largest fraud or bankruptcy leading to the crisis of investor confidence in 2002?
- a. Enron
  - b. Global Crossing
  - c. WorldCom
  - d. HIH Insurance
  - e. Xerox

ANSWER: WorldCom

11. The crisis in investor confidence in 2002 was caused by:
- a. Lack of integrity of business leaders.
  - b. Manipulation of financial results.
  - c. Boards of Directors that did not provide proper oversight.
  - d. Findings of alert auditors
  - e. All of the above.

ANSWER: a, b, and c.

12. SOX contained sections with regard to the audit and/or audit committee that were designed to:
- a. Increase the independence of management.
  - b. Increase the financial literacy of audit committee members.
  - c. Limit the conflicts of interest related to the services an auditor can perform.
  - d. Restrict the ability of auditors to serve on the audit committee.
  - e. All of the above.

ANSWER: b and c

13. The U.S. Internal Revenue Service (IRS) implemented *Circular 230* to remedy problems found with regard to the marketing of tax shelters thought to:
- a. Have no other purpose except to reduce taxes.
  - b. Have lower than 50% chance of success if challenged by the IRS.
  - c. Not be in accordance with client's needs.
  - d. Create fictitious losses.
  - e. All of the above

ANSWER: e

14. Why didn't investors caught in the Subprime Lending Crisis take earlier note of the risks inherent in investments known as collateralized debt as obligations (CDOs)?

- a. Greed and the desire for high returns.
- b. Banks were selling and buying them.
- c. Risks were buried in complex, jargon-oriented documents.
- d. Risks were diversified over many mortgages.
- e. Only three of the above.

ANSWER: a, b, c, and d

15. The U.S. Government created the *Trouped Asset Relief Program* (TARP) to:
- a. Bail out investors in U.S. financial firms and institutions.
  - b. Avoid a worldwide financial crisis.
  - c. Stimulate the U.S. economy
  - d. Resolve the financial crisis in Iceland.
  - e. Make a profit on the ultimate sale assets bought at a low value.

ANSWER: a, b, and c

16. The *Dodd-Frank Wall Street Reform and Consumer Protection Act* was created after the Subprime Lending fiasco to protect consumers from deceptive practices related to:
- a. Mortgages
  - b. Credit cards
  - c. Cars
  - d. Financial derivatives
  - e. All of the above

ANSWER: a, b, and d

17. A *Ponzi* scheme, such as Bernie Madoff ran, is:
- a. A card game
  - b. A sound investment scheme
  - c. A scheme to improve the environment
  - d. Hard to hide forever
  - e. None of the above.

ANSWER: d

18. Ralph Nadar contributed to the lack of credibility of corporations by exposing their:
- a. Excessive bonus schemes
  - b. Greed
  - c. Poor car safety
  - d. Poor environmental record
  - e. "Seller beware" attitude of toy manufacturers.

ANSWER: c and d Note Ch. 2 discusses only c

19. Freddie Mac and Fannie Mae:

- a. Were created to support the U.S. housing market.
- b. Stimulated the U.S. Housing Bubble.
- c. Provided bailout funds to the U.S. Government
- d. Acted in the best interest of consumers
- e. Acted in the best interest of lenders

ANSWER: a and b

20. Which of the following demonstrated extraordinary hubris?

- a. Kenneth Lay
- b. Bernie Ebbers
- c. Arthur Andersen
- d. Scott Sullivan
- e. All of the above.

ANSWER: a and b