

Chapter 2

Ethics and Business Decision Making

N.B.: TYPE indicates that a question is new, modified, or unchanged, as follows

- N A question new to this edition of the Test Bank.
 + A question modified from the previous edition of the Test Bank.
 = A question included in the previous edition of the Test Bank.

TRUE/FALSE QUESTIONS

1. Business ethics is not more complicated than personal ethics.

ANSWER: F PAGE: 45 TYPE: N
 BUSPROG: Ethics LO: 2-1 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

2. Ethics is concerned with the fairness or justness of an action.

ANSWER: T PAGE: 45 TYPE: =
 BUSPROG: Ethics LO: 2-1 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

3. Business ethics focuses on ethical behavior in the business world.

ANSWER: T PAGE: 45 TYPE: =
 BUSPROG: Ethics LO: 2-1 BLOOM'S: Knowledge

10. A business firm can sometimes predict whether a given action is legal.

ANSWER: T PAGE: 47 TYPE: =
 BUSPROG: Analytic LO: 2-1 BLOOM'S: Comprehension
 DIF: Moderate AICPA: BB-Critical Thinking

11. Acting in good faith gives a business firm a better chance of defending its actions in court.

ANSWER: T PAGE: 47 TYPE: =
 BUSPROG: Analytic LO: 2-1 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Legal

12. Ethical codes of conduct can set the ethical tone of a firm.

ANSWER: T PAGE: 48 TYPE: =
 BUSPROG: Ethics LO: 2-2 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Risk Analysis

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

ANSWER: T PAGE: 48 TYPE: N
 BUSPROG: Ethics LO: 2-2 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

14. Setting realistic workplace goals can increase the probability that employees will act unethically.

ANSWER: F PAGE: 48 TYPE: +
 BUSPROG: Ethics LO: 2-2 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Risk Analysis

15. Managers should apply the same ethical standards to themselves and to their employees.

ANSWER: T PAGE: 49 TYPE: +
 BUSPROG: Ethics LO: 2-2 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

16. An ethics program can clarify what a company considers to be unacceptable conduct.

ANSWER: T
BUSPROG: Ethics
DIF: Easy

PAGE: 49
LO: 2-2

TYPE: =
BLOOM'S: Knowledge
AICPA: BB-Critical Thinking

23. Ethical reasoning is the process through which an individual links his or her moral convictions or ethical standards to the particular situation at hand.

ANSWER: T PAGE: 52 TYPE: +
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

24. Duty-based ethical standards often come from religious precepts or through philosophical reasoning.

ANSWER: T PAGE: 52 TYPE: N
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Legal

25. Absolute mandates such as the commandment "Thou shalt not steal" can be justifiably broken if there is a benevolent motive.

ANSWER: F PAGE: 52 TYPE: N
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Comprehension
 DIF: Moderate AICPA: BB-Legal

26. According to German philosopher Immanuel Kant, individuals should evaluate their actions in light of the consequences that would follow if they were the only members of society that acted in that way.

ANSWER: F PAGE: 52 TYPE: N
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

27. The categorical imperative cannot be applied to many business actions.

ANSWER: F PAGE: 52 TYPE: N
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Comprehension
 DIF: Moderate AICPA: BB-Legal

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

ANSWER: T PAGE: 53 TYPE: =
BUSPROG: Analytic LO: 2-3 BLOOM'S: Knowledge
DIF: Easy AICPA: BB-Risk Analysis

29. According to utilitarianism, it matters how many people suffer a negative effect from an act.

ANSWER: T PAGE: 53 TYPE: +
BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
DIF: Easy AICPA: BB-Critical Thinking

30. According to utilitarianism, an action that affects the majority adversely is morally wrong.

ANSWER: T PAGE: 53 TYPE: =
BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
DIF: Easy AICPA: BB-Critical Thinking

31. Corporations can be good citizens by promoting goals that society deems worthwhile.

ANSWER: T PAGE: 54 TYPE: =
BUSPROG: Ethics LO: 2-3 BLOOM'S: Comprehension
DIF: Easy AICPA: BB-Critical Thinking

32. Corporations can be perceived as owing ethical duties to groups other than their shareholders.

ANSWER: T PAGE: 54 TYPE: =
BUSPROG: Ethics LO: 2-3 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

33. If the interests of different stakeholders conflict, it can be difficult to determine which group's interest should receive greater weight.

ANSWER: T PAGE: 54 TYPE: N
BUSPROG: Ethics LO: 2-3 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

34. A business firm's profits may suffer if the firm is not a “good corporate citizen.”

ANSWER: T
BUSPROG: Ethics
DIF: Easy

PAGE: 54
LO: 2-3

TYPE: =
BLOOM'S: Knowledge
AICPA: BB-Critical Thinking

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

ANSWER: T PAGE: 59 TYPE: =
BUSPROG: Analytic LO: 2-5 BLOOM'S: Knowledge
DIF: Easy AICPA: BB-Critical Thinking

MULTIPLE-CHOICE QUESTIONS

1. Any decision by the management of Fast-Food Franchise 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: 45 TYPE: =
BUSPROG: Reflective LO: 2-1 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Risk Analysis

2. Lia works for Media 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.
 - whatever is legal.

ANSWER: B PAGE: 45 TYPE: =
BUSPROG: Reflective LO: 2-1 BLOOM'S: Application
DIF: Moderate AICPA: BB-Critical Thinking

3. John is sales manager for Kleen ‘N Brite Products, Inc. Compared to John’s personal activities, his business activities most likely involve
- more complex ethical issues.
 - no ethical issues.
 - simpler ethical issues.

- b. financially rewarding behavior.
- c. legal behavior.
- d. religious behavior.

ANSWER: A PAGE: 45 TYPE: =
BUSPROG: Reflective LO: 2-1 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

7. Peak & Vale Accountants provides other firms with accounting services. Questions of what is ethical involve the extent to which Peak & Vale has

- a. a legal duty beyond those duties mandated by ethics.
- b. an ethical duty beyond those duties mandated by law.
- c. 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: 45 TYPE: =
BUSPROG: Reflective LO: 2-1 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

8. Housemate, Inc., makes and sells a variety of household products. With a fair amount of certainty, Housemate's decision makers can predict whether a given business action would be legal in

- a. all situations.
- b. many situations.
- c. no situations.
- d. practically no situations.

ANSWER: B PAGE: 47 TYPE: =
BUSPROG: Reflective LO: 2-1 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Legal

9. Sharon, the human resources director for Tempo Corporation, attempts to comply with the law in dealing with applicants and employees. One of the challenges Sharon faces is that the legality of an action is

- a. always clear.
- b. never clear.

- c. sometimes clear.
- d. usually clear.

ANSWER: C	PAGE: 47	TYPE: =
BUSPROG: Reflective	LO: 2-2	BLOOM'S: Comprehension
DIF: Moderate		AICPA: BB-Legal

12. Eden, the chief executive officer of Flo-Thru Piping Corporation, wants to ensure that Flo-Thru’s activities are legal and ethical. The best course for Eden and Flo-Thru 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: 47 TYPE: =
 BUSPROG: Reflective LO: 2-2 BLOOM’S: Comprehension
 DIF: Moderate AICPA: BB-Decision Modeling

13. Straitway Company encourages its managers to behave ethically, reasoning that the employees will take their cues from management. One of the most important ways to create and maintain an ethical behavior workplace is for management to
- a. demonstrate a commitment to ethical decision making.
 - b. discreetly engage in unethical or illegal acts.
 - c. look the other way when an employee engages in an unethical act.
 - d. direct employees to “do as we say, not as we do.”

ANSWER: A PAGE: 48 TYPE: N
 BUSPROG: Reflective LO: 2-2 BLOOM’S: Comprehension
 DIF: Easy AICPA: BB-Critical Thinking

14. Megan is the ethics officer for Nature’s Eggs, Inc., an organic egg raising company. In overseeing the application of the company’s ethical code of conduct, Megan is most likely **not** in charge of
- a. an ethics committee.
 - b. ethical training programs.
 - c. internal ethical audits.
 - d. ethical reviews of employees’ family members.

ANSWER: D PAGE: 49 TYPE: N
 BUSPROG: Reflective LO: 2-2 BLOOM’S: Comprehension
 DIF: Easy AICPA: BB-Critical Thinking

15. Ergonomic Corporation convenes its employees for its managers to announce (1) a new company-wide ethical code of conduct, (2) an ad campaign to publicize the new code, and (3) the discharge of employees who do not adhere to the code. One of the most effective ways to set a tone of ethical behavior within a business organization is
- to create an ethical code of conduct.
 - to discharge employees who create the appearance of impropriety.
 - to post a marketing campaign online touting the firm’s ethical tone.
 - for management to direct employees to “do as we say, not as we do.”

ANSWER: A PAGE: 49 TYPE: N
 BUSPROG: Reflective LO: 2-2 BLOOM’S: Comprehension
 DIF: Moderate AICPA: BB-Critical Thinking

16. Richard suspects his supervisor of unethical accounting practices. However, he does not want to lose his job if he reports the supervisor and the supervisor finds out who reported him. An important feature of online reporting systems like EthicsPoint is
- the employee reporting the unethical behavior can do so anonymously.
 - the employee reporting the unethical behavior is financially compensated if he loses his job as a result of the report.
 - the employee reporting the unethical behavior must give his full name when making the report.
 - the employee reporting the unethical behavior must have another employee supporting him.

ANSWER: A PAGE: 50 TYPE: N
 BUSPROG: Reflective LO: 2-2 BLOOM’S: Comprehension
 DIF: Moderate AICPA: BB-Critical Thinking

17. Whirlwind Financial Corporation sends its executives to a resort in Mexico—at taxpayers' expense—to consider using the firm's cash to buy back its stock and thereby prop up the value. Many of its competitors are doing the same thing. One of the best ways to learn about the ethical responsibilities inherent in operating a business is to look at
- a. the mistakes made by other companies.
 - b. the benefits of pursuing profit despite the appearance of impropriety.
 - c. the prevalence of a practice among other corporations.
 - d. who is footing the bill for a particular action.

ANSWER: A PAGE: 50 TYPE: N
BUSPROG: Reflective LO: 2-2 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

18. In business deals, Fiona, the chief executive officer of Snacks n' Bites, Inc., follows duty-based ethical standards. These are most likely derived from
- a. a corporate ethics code.
 - b. a cost-benefit analysis.
 - c. philosophical reasoning.
 - d. the law.

ANSWER: C PAGE: 52 TYPE: =
BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
DIF: Easy AICPA: BB-Critical Thinking

19. Lyle, vice-president of sales for Mi-T Electric, Inc., adheres to Judeo-Christian religious ethical standards. With respect to their application, these standards are
- a. absolute.
 - b. analytical.
 - c. discretionary.
 - d. utilitarian.

ANSWER: A PAGE: 52 TYPE: =
BUSPROG: Reflective LO: 2-3 BLOOM'S: Application
DIF: Moderate AICPA: BB-Critical Thinking

20. Julia, the head executive of Fine Woolen Sweaters, Inc., is a committed Christian who strongly adheres to the Ten Commandments. One of Julia's employees is found to be stealing sweaters and giving them to a local homeless shelter. Julia is likely to
- a. punish the employee for stealing even though the employee's motive was benevolent.
 - b. view the employee's actions as justified because the employee was clothing the poor.
 - c. contribute more sweaters to the homeless shelter.
 - d. gently reprimand the employee without suggesting that the employee's actions were unethical.

ANSWER: A	PAGE: 52	TYPE: N
BUSPROG: Ethics	LO: 2-3	BLOOM'S: Application
DIF: Moderate		AICPA: BB-Decision Modeling

21. Carrie Ann works at Paper Products, Inc. She considers taking home a few sheets of stationery so she can write letters to her ailing grandmother. Since Paper Products produces thousands of sheets of stationery every day no one will miss the few sheets she takes and company profits will not be affected. Carrie Ann then considers what would happen if every employee took some stationery home and decides not to take any. Carrie Ann is being influenced by
- a. the categorical imperative.
 - b. the principle of rights.
 - c. a cost-benefit analysis.
 - d. outcome-based ethics.

ANSWER: A	PAGE: 52	TYPE: N
BUSPROG: Ethics	LO: 2-3	BLOOM'S: Application
DIF: Moderate		AICPA: BB-Decision Modeling

22. In making decisions for Smartt Investments, Rita uses a cost-benefit analysis. This is a part of
- a. duty-based ethics.
 - b. Kantian ethics.
 - c. rights-based ethics.

d. utilitarian ethics.

ANSWER: D PAGE: 53 TYPE: +
 BUSPROG: Ethics LO: 2-3 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

23. In making business decisions, Glenda, personnel manager for HVAC Maintenance, Inc., applies her 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: 53 TYPE: =
 BUSPROG: Reflective LO: 2-3 BLOOM'S: Application
 DIF: Moderate AICPA: BB-Critical Thinking

24. Ryan, the owner of SuperMart Stores, 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: 53 TYPE: =
 BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
 DIF: Moderate AICPA: BB-Critical Thinking

25. Hailey, a lawyer on the staff of International Group, always considers the consequences of an action rather than the nature of the action itself when making ethical decisions in a business context. Hailey is applying

- a. the utilitarian theory of ethics in business contexts.
- b. religious beliefs in business contexts.
- c. Kantian ethics in business contexts.

d. the principle of rights theory of ethics in business contexts.

ANSWER: A
BUSPROG: Ethics
DIF: Moderate

PAGE: 53
LO: 2-3

TYPE: +
BLOOM'S: Application
AICPA: BB-Critical Thinking

29. A common ethical dilemma faced by the management of Spencer Hydraulics Corporation involves the effect that its decision will have on
- one group as opposed to another.
 - the firm's competitors.
 - the government.
 - the U.S. Chamber of Commerce.

ANSWER: A PAGE: 54 TYPE: =
BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

30. Applied Business Corporation makes and markets its products nationwide. Under the stakeholder approach, to be considered socially responsible when making a business decision, Applied must take into account the needs of
- its consumers, the community, and society only.
 - its employees and owners only.
 - its employees, owners, consumers, the community, and society.
 - no one.

ANSWER: C PAGE: 54 TYPE: =
BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Risk Analysis

31. Fealty Credit Corporation asks its employees to evaluate their actions and get on the ethical business decision-making "bandwagon." Guidelines for judging individual actions most likely include all of the following *except*
- an individual's conscience.
 - business rules and procedures.
 - loopholes in the law or company policies.
 - promises to others.

ANSWER: C PAGE: 55 TYPE: =
BUSPROG: Reflective LO: 2-4 BLOOM'S: Application
DIF: Moderate AICPA: BB-Critical Thinking

32. In making a decision as chief executive officer of Straightarrow Archery Supplies, Robin always considers whether he would feel any guilt about a particular action. As a guide, Robin is using
- the categorical imperative.
 - internal company policies.
 - the law.
 - his conscience.

ANSWER: D PAGE: 55 TYPE: N
BUSPROG: Ethics LO: 2-4 BLOOM'S: Application
DIF: Moderate AICPA: BB-Decision Modeling

33. In judging her action as a corporate employee of Music Notes Corporation, Brooke always lets her conscience be her guide. As an effective alternative, Brooke could
- ask herself whether she would be happy to be interviewed by the national media about the action.
 - consider only the benefits that would accrue to her personally.
 - look only at the result, regardless of the means to attain it.
 - consider how she would like to have others treat her in a similar situation.

ANSWER: A PAGE: 55 TYPE: N
BUSPROG: Reflective LO: 2-4 BLOOM'S: Application
DIF: Moderate AICPA: BB-Critical Thinking

34. Rio Business Corporation pays potential clients, including private foreign companies and the representatives of foreign labor organizations to facilitate business. If Rio knows that the payments will be passed on to a foreign government, this practice is
- illegal if the payments violate the Foreign Corrupt Practices Act.
 - legal because a third party acts as a "go-between."
 - legal because private parties are involved on both sides of the deal.
 - legal because the payments are intended to facilitate business.

ANSWER: A PAGE: 58 TYPE: N

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. Under any of the different corporate social responsibility theories, the decision whether to market the product would acknowledge the firm’s duty to act ethically and be accountable to society. There might be a balancing of the interests of competing stakeholder groups or a shouldering of the responsibility to behave in a socially beneficial way as a good corporate citizen. Of course, the firm would likely have to accept any legal liability that would arise from its sale of the product.

To apply any of these approaches, the executive might evaluate the situation according to the six guidelines for making ethical business decision. Is the action legal? Is it in line with the company’s rules? If so, is it in accord with the “spirit” of the law, those policies, and one’s conscience? Could it withstand the glare of publicity and satisfy promises made to others? It seems probable that sales of the product would violate the company’s rules—at the least because in the long run the sales could negatively impact corporate profits when some are harmed by the product’s use—and that, thus, the sales could not withstand publicity, promises to others, or any individual’s conscience. Under the five-step procedure to review the ethical conflicts, the first step is to specify the facts, the problem, and the ethical principles at issue. The second step is to discuss potential actions and their effects. The third step is to come to a consensus as to what to do. This consensus should withstand moral scrutiny (the fourth step) and fulfill corporate, community, and individual values (the fifth step). It seems unlikely that a proposed sale of the product would survive the fourth step, under either a duty-based or an outcome-based ethical standard.

PAGES: 47–49 & 53–56

TYPE: =

BUSPROG: Reflective

LO: 2-2 & 2-3 BLOOM’S: Analysis

DIF: Challenging

AICPA: BB-Decision Modeling

2. Recreation & Sports Equipment Corporation sells a product that is capable of seriously injuring consumers who misuse it 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 token, 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: 47–49 & 53–56 TYPE: =
 BUSPROG: Reflective LO: 2-2, 3 & 4 BLOOM'S: Analysis
 DIF: Challenging AICPA: BB-Decision Modeling