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Essentials Text and Summarized Cases 10th Edition by Miller ISBN
1133191355 9781133191353**

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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

ANSWER: T
BUSPROG: Ethics

PAGE: 46
LO: 2-1

TYPE: N
BLOOM'S: Comprehension

DIF: Moderate

AICPA: BB-Critical Thinking

8. The legality of an action is always clear.

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

9. It is not possible to violate a business regulation without realizing it.

ANSWER: F PAGE: 47 TYPE: N
 BUSPROG: Ethics LO: 2-1 BLOOM'S: Knowledge
 DIF: Easy AICPA: BB-Critical Thinking

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: BLOOM'S: =
 BUSPROG: Analytic LO: 2-1 Knowledge AICPA:
 DIF: Easy 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 employ-

ees will act unethically.

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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: BLOOM'S: N
BUSPROG: Ethics LO: 2-3 Knowledge AICPA:
DIF: Easy 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 DI asy
BUSPROG: Analytic F:
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23. Ethical reasoning is the process through which an individual links his
29. ~~According to utilitarianism, ethical standards are the only ones that are~~ ~~affected~~ ~~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 DIF: y
BUSPROG: Ethics :
Eas

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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.
 - the same ethical issues.

ANSWER: A PAGE: 45 TYPE: =

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

10. David, the chief accounting officer of Tension Fencing Corporation, wants to be sure that all the company's accounts are legal and ethical. Sometimes, however, he is unsure exactly what is legal and what is illegal. David should
- not worry about what is legal or illegal as long as the corporate executives benefit in the short run.
 - try his best to not do anything illegal and keep documentation showing that he always acts in good faith.
 - not worry about what is legal or illegal as long as it benefits the shareholders.
 - not worry about what is legal or illegal as long as it benefits the chief executive of the corporation.

ANSWER: B PAGE: 47 TYPE: N
BUSPROG: Reflective LO: 2-2 BLOOM'S: Application
DIF: Moderate AICPA: BB-Decision Modeling

11. Margaret is the top manager of Pecans, Inc. She sets strict ethical standards for all employees. Margaret, however, often takes some of the company's best nuts and sells them from her house. The ethical tone at Pecans, Inc. is
- likely to be good because Margaret has set such strict standards for her employees.
 - not likely to be good because although Margaret sets strict ethical standards for the other employees, she does not follow them.
 - not related to either Margaret's ethical standards or her own unethical behavior.
 - not likely to be good because employees tend to resent strict ethical standards.

ANSWER: B PAGE: 47 TYPE: N
BUSPROG: Reflective LO: 2-2 BLOOM'S: Application
DIF: Moderate AICPA: BB-Critical Thinking

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
- good faith.
 - ignorance of the law.
 - regard for the firm's shareholders only.
 - 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
- demonstrate a commitment to ethical decision making.
 - discreetly engage in unethical or illegal acts.
 - look the other way when an employee engages in an unethical act.
 - 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
- an ethics committee.
 - ethical training programs.
 - internal ethical audits.
 - 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
- the mistakes made by other companies.
 - the benefits of pursuing profit despite the appearance of impropriety.
 - the prevalence of a practice among other corporations.
 - 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 corporate ethics code.
 - a cost-benefit analysis.
 - philosophical reasoning.
 - 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
- absolute.
 - analytical.
 - discretionary.
 - utilitarian.

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

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

ANSWER: D PAGE: 53 TYPE: =
BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
DIF: Easy AICPA: BB-Critical Thinking

27. In deciding questions of corporate social responsibility, Valley Disposal & Recycling, Inc., is concerned with
- how the corporation can best fulfill any ethical duty to society.
 - the effect on corporate profits of ignoring any ethical duty to society.
 - whether the corporation owes any ethical duty to society.
 - all of the choices.

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

28. MeatMen, Inc. spends a great deal of money and effort to ensure that all employees are safe on the job, that all products are safe for consumers, and that the environmental impact of the corporation is minimal. MeatMen appears to strongly believe in the concept of
- the moral minimum.
 - corporate social responsibility.
 - grey areas in the law.
 - government oversight.

ANSWER: B PAGE: 54 TYPE: N
BUSPROG: Reflective LO: 2-3 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Decision Modeling

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
BUSPROG: Ethics LO: 2-5 BLOOM'S: Comprehension
DIF: Moderate AICPA: BB-Critical Thinking

35. Bilt-Well Construction Corporation makes a side payment to a government official in Nigeria to obtain a contract. In the United States, this is
- illegal and unethical.
 - illegal but not unethical.
 - unethical but not illegal.
 - legal and ethical.

ANSWER: A	PAGE: 59	TYPE: =
BUSPROG: Reflective	LO: 2-5	BLOOM'S: Knowledge
DIF: Easy		AICPA: BB-Critical Thinking

ESSAY QUESTIONS

1. Olaf, an executive with Pharma Product Distribution, Inc., has to decide whether to market a product that might have undesirable side effects for a small percentage of users. How should Olaf decide whether to sell the product? How does the standard of ethics that is applied affect this answer?

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 on which system of ethics is applied.

From a religious duty-based perspective, the answer might be absolute: do not sell the product because some would be harmed, sell the product only to those who would not be harmed, or sell the product with clear warnings of the possible harm. Similar conclusions might be reached through a philosophical, categorical imperative, duty-based approach, which would consider the result if every corporation chose to sell the product. A principle-of-rights duty-based approach might likewise come to the same conclusions, reasoning that all persons have a right to life, for example, and that the corporation has an ethical duty to respect that right and act accordingly. 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. 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 amoral 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

