

Business Law with UCC Applications, 15e (Sukys)

Chapter 1 Ethics, Social Responsibility, and the Law

1) Law consists of values that govern a society's attitudes toward right and wrong.

Answer: FALSE

Explanation: The law consists of rules of conduct established by the government of a society to maintain harmony, stability, and justice.

Difficulty: 1 Easy

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

2) Law is a means of civil management.

Answer: TRUE

Explanation: The law is a means of civil management because it provides a way to protect the people by enforcing these rights and duties through the courts, the executive branch, and the legislature. The law draws the line between conduct that is permissible and that which is not allowed, so people—at the very least—know that they can be punished if they choose to disobey the law.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

3) Negative rights theory holds that rights are a divine invention designed to help people escape moral law.

Answer: FALSE

Explanation: Negative rights theory is a human invention. For example, the right to privacy is actually a way to hide the truth from the public at large, the right to bear arms is the right to harm or kill, and the right to private property is the right to exploit, plunder, and pollute that property.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

4) Positive law derives from an outside source that has emerged within society.

Answer: TRUE

Explanation: Yes, positive law is a legal theory that says law originates from an outside source that has emerged from within society. The people of a society discover their rights as they live and work together, which leads to commonly held rights that are described in a series of documents, such as *Magna Carta*.

Difficulty: 3 Hard

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Analyze

AACSB: Ethics

Accessibility: Keyboard Navigation

5) If Sally believed in natural law, she would believe that right and wrong originate from an external objective, superior force.

Answer: TRUE

Explanation: As a proponent of natural law, Sally believes morality and the law are united in a common bond based on their intrinsic nature. Natural law sees law as originating from some objective, superior force that stands outside the everyday experience of most people. Thus law, in its most basic form, must be moral.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

6) Ethical rules of conduct developed by various professions are often easy to understand and follow.

Answer: FALSE

Explanation: While these professional rules of conduct—or "canons"—are admirable, they are often so long and complex that they end up covering pages of text that require an in-depth study just to understand the basics.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

7) Ethical theories are all based on the assumption that people want to live ethical lives.

Answer: TRUE

Explanation: Although ethical theories differ in their particulars, they all assume people want to live ethical lives. If this were not the case, there would be no need to fashion these theories in the first place.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

8) Joe believes that there are absolute standards of right and wrong. Joe's belief is an example of market value ethics.

Answer: FALSE

Explanation: The correct answer is Joe believes in natural law which views law as originating from some objective, superior force that stands outside the everyday experience of most people.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

9) In the "Opening Case", the text notes that the plaintiffs in the U.S. Supreme Court case *Ziglar v. Abbasi*, were alleging brutal torture by the U.S. government and based on the *Bivens* case, asked the Supreme Court for a permanent injunction.

Answer: FALSE

Explanation: Based on the *Bivens* case, the *Abbasi* plaintiffs wanted the right to seek monetary damages against defendants, Attorney General John Ashcroft, Robert Mueller, former FBI Director, and James Ziglar, former commissioner of the Immigration and Naturalization Service. The Supreme Court denied their cause of action for monetary damages.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

10) In his book, *What Money Can't Buy: The Moral Limits of Markets*, author Michael Sandel reveals that market value ethics is the new ethical relativism.

Answer: TRUE

Explanation: Ethical relativism says that right and wrong have no intrinsic value, but instead are determined by circumstance, situation, or even personal preference. Such a system results in a "floating morality" in which what is ethical for one person is not ethical for another, and so on.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

11) A descriptive theory explains how to create values that permit a society to run smoothly.

Answer: FALSE

Explanation: Social contract ethics is descriptive rather than prescriptive. A descriptive theory simply describes the values at work within a social system, rather than explaining how the values originated in the first place. A prescriptive theory, on the other hand, explains how to come up with the values that permit a society to run smoothly.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-04 Describe social contract ethics.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

12) In A Classic Case: The Declaration of Independence, the text argues that Jefferson derived his four central truths of social contract from John Locke's famous book, *Leviathan*.

Answer: FALSE

Explanation: According to Professor George Mace, Jefferson relied on *Leviathan*, authored by Thomas Hobbes—not John Locke—which set forth four basic truths found in the Declaration of Independence: (1) human beings in their natural state have a common human nature; (2) human beings need a social contract to protect themselves from one another; (3) social contracts must protect certain essential core rights; and (4) failing social contracts can be abolished.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-04 Describe social contract ethics.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) Another name for utility thinking is 'cost-benefit' thinking.

Answer: TRUE

Explanation: Under a cost-benefit analysis, a corporate manager simply looks at the action he or she is about to take and asks whether the benefit to the shareholders will outweigh the cost to the corporation.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

14) Utilitarianism focuses on the circumstances that an individual faces.

Answer: FALSE

Explanation: Utilitarianism holds that the question of whether an action is moral or not depends on the ultimate effects. The more "good" that results, the more ethical is the action.

Conversely, the more "bad" that results, the less ethical is the action.

Difficulty: 1 Easy

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

15) If Alfredo, a small business owner, engages in cost-benefit thinking, he will generally only focus on the benefits and problems his business will face as the result of a decision he makes.

Answer: TRUE

Explanation: Utility thinking, which is also referred to as cost-benefit thinking, looks only at corporate benefits and problems rather than the benefits and problems that will result for others outside the boardroom. If the benefits to Alfredo's business offset the corporate costs, then the action is taken. If not, the action is abandoned.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

16) Rational ethics, often referred to as objective ethics, states that people's ethical decisions can be judged only by understanding their situations.

Answer: FALSE

Explanation: Rational ethics, also known as objective ethics, says ethical values can be determined by a proper application of human reason. The theory assumes that because all human beings are rational, all human beings ought to have the same ethical values. Therefore, the rational ethics system of ethics seeks to establish universal rules of behavior that apply to all people at all times.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-06 Define rational ethics.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

17) In his essay, *Politics as a Vocation*, Max Weber argues that national leaders must practice the "ethic of ultimate ends" to govern correctly.

Answer: FALSE

Explanation: Weber argues that a dyad (or two level) system of morality exists, represented by the "ethic of ultimate ends" for individuals and the "ethic of responsibility" for national leaders. The ethic of ultimate ends must be practiced by individuals because individuals can never completely foresee "the ultimate ends" of their actions.

Difficulty: 2 Medium

Topic: Ethics and the Government

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

18) All corporations are considered "legal persons" under federal and state statutes.

Answer: TRUE

Explanation: Corporations and multinational corporations are given the status of "legal persons" under the authority of federal and state statutes. This status as a "legal person" gives the corporation certain rights and abilities that other business entities do not always have.

Difficulty: 2 Medium

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

19) Corporate social responsibility is based on the legal advantages granted to the corporation.

Answer: TRUE

Explanation: Some of the reasons that corporations should accept social responsibility are built on the legal advantages granted to corporations. The first argument supporting corporate social responsibility is based on the premise that corporations are granted certain rights as a result of the incorporation process, including the rights of life, liberty, and property. And because corporations have all these rights, they owe an obligation to the public and to the community at large to act responsibly. In practical terms, this means that the decisions of corporate managers must not be narrowly focused on the profits of the shareholders.

Difficulty: 2 Medium

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-08 Explore the need for ethical responsibility in business.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

20) The traditional legal view of a corporation held that corporate managers have a fiduciary duty to shareholders to make broader-based, more ethical decisions.

Answer: FALSE

Explanation: The traditional legal view of a corporation says that management's primary role is to make a profit for its shareholders, meaning corporate managers are obligated to make decisions that maximize those profits. Accordingly, those managers could be sued for making a decision that hurt the corporation's profits and thereby, reduced or eliminated dividends.

Difficulty: 2 Medium

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-08 Explore the need for ethical responsibility in business.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

21) Living an ethical lifestyle means simply doing what is legal.

Answer: FALSE

Explanation: Some people determine an ethical lifestyle as simply doing what is legal. Such a course of action may often result in ethical conduct. However, that is not always the case. Even when most people know that a particular type of conduct is illegal, that does not prevent some people from engaging in that conduct.

Difficulty: 3 Hard

Topic: The Relationship Between Law and Ethics

Learning Objective: 01-09 Describe the need for law in our society.; 01-10 Clarify how the law and ethics can often benefit from anarchy.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

22) While the law protects our rights, only ethical principles can stop us from doing something that is wrong.

Answer: FALSE

Explanation: Ethical considerations should always form the foundation of law and the legal system. If the law is not founded on ethics, it will rarely succeed in reaching its objectives. Ethical principles can tell us what is right, but they cannot stop us from doing that which is wrong. The law also cannot stop us from doing wrong. However, the law can punish us if we choose to do wrong. The law draws the line between permissible and impermissible conduct, so that—at the very least—people are punished if they hurt or cheat one another or threaten society as a whole.

Difficulty: 3 Hard

Topic: The Relationship Between Law and Ethics

Learning Objective: 01-10 Clarify how the law and ethics can often benefit from anarchy.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

23) _____ are values that govern a society's attitude toward right and wrong and toward good and evil.

A) Ethics

B) Laws

C) Market values

D) Morals

Answer: D

Explanation: Morals are values that govern a society's attitude toward right and wrong and toward good and evil. Therefore, morality ought to serve as a guide for those bodies within our society, such as the courts, the executive branch, the legislature, and the administrative agencies, that make, interpret, and enforce the law.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.; 01-02 Distinguish between natural law and positive law.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

24) Martin Luther King, Jr. refused to obey the injunction in Birmingham in the early 1960s that prohibited King from speaking publicly merely because he was black. He was jailed for his disobedience. King felt that there was a higher law than the law of the land. King's actions were most likely based on a(n) _____ ethical model.

- A) positive law
- B) natural law
- C) utilitarianism
- D) cost-benefit

Answer: B

Explanation: King was most likely basing his actions on natural law. According to natural law, there exists an unbreakable link joining morality to the law in a fundamental way. This link exists because a law must, in its most basic form, be moral. Otherwise, it is not lawful. A law with an immoral purpose is not a law at all. Instead, it is an anomaly that does not fit into our concept of either law or the legal process. There are, in fact, some laws that have no moral content whatsoever and are unjust. To King, the Birmingham law was unjust with no moral basis, so therefore, he did not have to obey it.

Difficulty: 3 Hard

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.; 01-02 Distinguish between natural law and positive law.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.; 01-06 Define rational ethics.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) According to neoliberalism, or ethical relativism:

- A) human values apply to all people at all times.
- B) both natural law and positive law form the basis for its beliefs.
- C) there are no objective or absolute standards of right and wrong.
- D) the morality of an action is determined by its ultimate effects.

Answer: C

Explanation: Ethical relativism says that there are no objective or absolute standards of right and wrong. Ethical relativism says that right and wrong have no intrinsic value but, instead, are determined by circumstance, situation, or even personal preference.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-01 Define law, morality, and ethics.; 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

26) _____ consist of rules of conduct established by the government of a society to maintain harmony, stability, and justice.

- A) Morals
- B) Ethics
- C) Laws
- D) Values

Answer: C

Explanation: The law consists of rules of conduct established by the government of a society to maintain harmony, stability, and justice. It accomplishes these objectives by defining the legal rights and duties of the people. The law also provides a way to protect the people by enforcing these rights and duties through the courts, the executive branch, and the legislature.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

27) Developing, formulating, and applying rules in line with our values is the job of:

- A) ethics.
- B) conduct.
- C) law.
- D) rationalism.

Answer: A

Explanation: Ethics is derived from our shared fundamental values that tell us the difference between right and wrong. Ethics is, therefore, an attempt to develop a means of determining what these values ought to be and of formulating and applying rules that enforce shared values.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-01 Define law, morality, and ethics.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

28) _____ sees the morality of an action is determined by its ultimate effects.

- A) Ethical relativism
- B) Social contract theory
- C) Utilitarianism
- D) Natural law

Answer: C

Explanation: Utilitarianism is an ethical theory that says that the morality of an action is determined by its ultimate effects. The more good that results, the more ethical is the action. Conversely, the more bad that results, the less ethical is the action. Utilitarianism seeks only one permanent goal: the greatest good for the greatest number.

Difficulty: 2 Medium

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) _____ is a vision of society in which competition for wealth is the only recognized value and virtually all social decisions are left to unregulated markets... It is a world in which... "everything [is] for sale."

- A) Neoliberalism
- B) Rational ethics
- C) Social contract theory
- D) Utilitarianism

Answer: A

Explanation: According to the text, we have begun to quantify everything from art to education to human rights. Generally, most experts, economists, philosophers, theologians, politicians, and historians alike refer to this concept as neoliberalism. This quote is found in *The Global Class War*, by Jeff Faux, the founder and former president of the Economic Policy Institute and editor of American Prospect.

Difficulty: 3 Hard

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.; 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.; 01-06 Define rational ethics.

Bloom's: Apply

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

30) According to the ethical system of _____, ethical values can be determined by a proper application of human reason.

- A) natural law
- B) market value ethics
- C) utilitarianism
- D) rational ethics

Answer: D

Explanation: *Rational ethics* (Immanuel Kant) is a philosophical theory that says ethical values can be determined by a proper application of human reason. The theory assumes that as rational beings, all human beings ought to have the same universal objectively ethical values.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-02 Distinguish between natural law and positive law.; 01-03 Explain the effects of nonjudgmentalism.; 01-05 Outline the steps in applying utilitarianism.; 01-06 Define rational ethics.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

31) Political scientist and philosopher, Michael Sandel, warns that our tendency to evaluate everything based on money creates two insidious results—injustice and corruption. Here, Sandel is most likely critiquing which ethical theory?

- A) Market value ethics
- B) Positive law
- C) Utilitarianism
- D) Social contract theory

Answer: A

Explanation: In criticizing market value ethics, Sandel writes of the "moral limits" of the marketplace. If we quantify everything, Sandel warns, then those with more quantifiable assets win and those with fewer quantifiable assets lose and as a result, the gap between these classes widens.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-02 Distinguish between natural law and positive law.; 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) Which of the following do positive law theory and natural law theory have in common?

- A) Both believe that human decency will ultimately triumph over human cruelty.
- B) Both believe that human values apply to all people at all times.
- C) Both depend on an outside source for their understanding of law, morality, and rights.
- D) Both believe in forming and dictating ethical decisions to people.

Answer: C

Explanation: Natural law is sometimes confused with positive law because both depend on an outside force for their understanding of law, morality, and human rights. The difference is that positive law says that the law comes from social institutions, whereas natural law generally derives from a superior force, such as the biblical God, Aristotle's eternal changeless primary being, Hegel's Absolute, the Being of Eckhart Tolle, or the Kami of Shintoism.

Difficulty: 3 Hard

Topic: Defining the Law, Morality, and Ethics

Learning Objective: 01-02 Distinguish between natural law and positive law.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

33) In 2005, a new doctrine called _____, declares that the leadership of every nation has a definitive duty to protect its own people from four major threats, genocide, war crimes, ethnic cleansing and crimes against humanity.

- A) Responsibility to Protect (R2P)
- B) Failed States Project (FSP)
- C) National Ethical Dyad (NED)
- D) Ethic of Ultimate Ends (EUE)

Answer: A

Explanation: The Responsibility to Protect (R2P), declares that the leadership of every nation has a definitive duty to protect its own people from four major threats, genocide, war crimes, ethnic cleansing and crimes against humanity. A nation-state that commits such offenses is considered to be a rogue state and the international community has the duty to police all other members of the community to ensure that none of them victimize their own people. Moreover, if such offenses are discovered in a particular nation, it is the duty of all other nations to stop those offenses by resolution, by sanctions, by military intervention, or by all three.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

34) _____ is a philosophical theory that says ethical values can be determined by a proper application of human reason.

- A) Neoliberalism
- B) Rational ethics
- C) Social contract theory
- D) Ethical relativism

Answer: B

Explanation: Rational, or objective, ethics is a philosophical theory that says ethical values can be determined by a proper application of human reason. The theory assumes, and rightfully so, that, because all human beings are rational, all human beings ought to have the same ethical values. Therefore, rational ethics ought to establish universal rules of behavior that apply to all people at all times.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.; 01-06 Define rational ethics.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

35) If Samantha believes that the primary way to judge whether an action is right or wrong is to use quantification as the primary tool for determining value, she would believe in:

- A) market value ethics.
- B) social contract theory.
- C) utilitarianism.
- D) natural law.

Answer: A

Explanation: Market value ethics uses quantification as the primary tool for determining value and therefore, for determining whether an action is right or wrong. Generally, most experts, economists, philosophers, theologians, politicians, and historians alike refer to this concept as neoliberalism.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) If the only question a corporate manager asks before she takes an action is whether the benefit to the shareholders will outweigh the cost to the corporation, she would most likely using a(n) _____ ethical model.

- A) descriptive theory
- B) concurrent validity
- C) prescriptive theory
- D) utility thinking

Answer: D

Explanation: Utility thinking or cost-benefit thinking occurs when a corporate manager simply looks at the action he or she is about to take and asks whether the benefit to the shareholders will outweigh the cost to the corporation. If the shareholders' benefits offset corporate costs, then the action is taken. If not, the action is abandoned.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-05 Outline the steps in applying utilitarianism.; 01-08 Explore the need for ethical responsibility in business.

Bloom's: Apply

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) If Anthony is concerned only with corporate benefits and problems, rather than the benefits and problems that will result for others outside the boardroom, he most likely believes in:

- A) utility thinking.
- B) rational ethics.
- C) social contract theory.
- D) ethical relativism.

Answer: A

Explanation: Like its cousin neoliberalism, utility thinking fails because it relies on market values to make moral judgments. This tendency corrupts the essential elements of utilitarianism. If neoliberal utility thinking is used rather than pure utilitarianism, then the concept of the "greatest good" becomes defined in terms of the market.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.; 01-06 Define rational ethics.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

38) If George believes in a "state of nature", where people must fend for themselves rather than give up the freedom to do as they please, and in return receive a guarantee that other individuals will curb their behavior, he would most likely be rejecting the _____ ethical theory.

- A) market value
- B) state of society
- C) social contract
- D) cost-benefit

Answer: C

Explanation: For the social contract to work, most people must adhere to its rules, and those who do not must be punished. If this were not the case, then the social contract would disintegrate, and the society would return, as George believes, to a "state of nature" in which people must fend for themselves.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-03 Explain the effects of nonjudgmentalism.; 01-04 Describe social contract ethics.; 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

39) The social contract ethical theory:

- A) explains how to formulate values that permit a society to run smoothly.
- B) advocates a society in which people must fend for themselves.
- C) states that to live harmoniously, people must give up certain rights and freedoms.
- D) states that people cannot be forced to adhere to rules, or be punished for not doing so.

Answer: C

Explanation: At the most fundamental level, the social contract ethical theory says that for people to live together harmoniously, they must give up certain freedoms to receive certain protections in return. In other words, to protect our fundamental rights, people enter a social contract under which they agree to limit all other "rights" and to establish a central governing authority whose job it is to protect those rights by establishing an orderly, safe, and secure governmental system.

Difficulty: 2 Medium

Topic: Ethical Theories

Learning Objective: 01-04 Describe social contract ethics.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

40) The ethic of _____ must be practiced by individuals because individuals can never foresee the result of their actions.

- A) responsibility
- B) relativism
- C) ultimate ends
- D) ultimate needs

Answer: C

Explanation: In an essay entitled *Politics as a Vocation*, Max Weber argues that a dyad (or a two level) system of morality exists, represented by the "ethic of ultimate ends" for individuals and an "ethic of responsibility" for national leaders. The ethic of ultimate ends must be practiced by individuals because individuals can never completely foresee "the ultimate ends" of their actions.

Difficulty: 2 Medium

Topic: Ethics and the Government

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

41) Until recently, the goal of making a profit for _____ was the only view of corporate responsibility built into statutory and common law.

- A) its creditors
- B) its shareholders
- C) social responsibility
- D) the government

Answer: B

Explanation: The traditional view of corporate responsibility is that a corporation has no social responsibility beyond making a profit for its shareholders. This view has remained so ingrained in our system that, until recently, it was the only view built into statutory and common law.

Difficulty: 2 Medium

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.; 01-08 Explore the need for ethical responsibility in business.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

42) The law exercises the power of _____ to confiscate privately owned land for community purposes.

- A) eminent domain
- B) the ultimate ruler
- C) social justice
- D) property statutes

Answer: A

Explanation: The law also promotes economic growth by granting tax abatements, by rezoning certain urban areas for the establishment of stores and businesses, and by exercising the power of eminent domain to confiscate privately owned land for community purposes.

Difficulty: 2 Medium

Topic: The Relationship Between Law and Ethics

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.; 01-09 Describe the need for law in our society.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

43) Which of the following is true of ethical and legal harmony?

- A) In a utopian society, ethics and law would always differ.
- B) Ethical considerations cannot form the foundation of a legal system.
- C) A legal system founded on ethics will rarely succeed in reaching its objectives.
- D) Ethics can lead the way in difficult situations where the law has yet to venture.

Answer: D

Explanation: Ethics can lead the way in difficult situations or in areas of the social structure into which the law has yet to venture. Some philosophers, such as Kropotkin and Rousseau, argue that a little anarchy now and again is useful, despite the horrors that often result in such a state, but only when what emerges from the period of anarchy is a system blessed by legal and ethical harmony.

Difficulty: 3 Hard

Topic: The Relationship Between Law and Ethics

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.; 01-09 Describe the need for law in our society.; 01-10 Clarify how the law and ethics can often benefit from anarchy.

Bloom's: Evaluate

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 44) In terms of social responsibility, which of the following arguments is true?
- A) Under provisions of most incorporation statutes, a corporation is considered nothing more than a company.
 - B) The decisions of corporate managers must always be narrowly focused on the profits of the shareholders.
 - C) Corporate social responsibility is based on the premise that it is unethical for corporations to earn profits for themselves.
 - D) Corporate decisions have an impact on more people than just the shareholders and managers.

Answer: D

Explanation: A reason for demanding social responsibility from corporations is that corporate decision-making clearly has an impact on more people than just the shareholders and the managers. Those who support corporate social responsibility often argue that many corporate decisions, such as the decision to open or close a factory, will affect everyone in the local community. Those affected by such decisions include suppliers, consumers, employees, support businesses, and community members. Consequently, the argument goes, all of these groups should be taken into consideration when corporate managers make decisions.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-08 Explore the need for ethical responsibility in business.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 45) Matrix Corporation's board of directors decides not to outsource its U.S. jobs to China, even though it would cut labor costs by fifty percent. Shareholders subsequently sued the directors for failing to maximize profits. Under the traditional view, the directors would be:
- A) absolutely immune from any liability to the shareholders.
 - B) absolutely liable to the shareholders.
 - C) liable to the shareholders, unless they can prove their decision not to outsource was made with the shareholders' profits interest above all other interests.
 - D) criminally liable, unless granted immunity by a federal prosecutor.

Answer: C

Explanation: Under the traditional view, the primary role of a corporation is to make a profit for its shareholders, meaning that corporate managers are obligated to make decisions that maximize those profits. Corporate managers can be sued for making a decision that hurts the corporation's profits and thereby reduces or eliminates dividends.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-08 Explore the need for ethical responsibility in business.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) Some argue that _____ is actually in the long-term best interests of the corporation. This argument, referred to as _____, is based on the notion that socially responsible corporations benefit by creating _____ for themselves, thus motivating consumers to purchase their products, investors to buy their stock, and lawmakers to grant them further legal advantages.

- A) profit maximization; social responsibility; goodwill
- B) social responsibility; enlightened corporate self-interest; goodwill
- C) profit maximization; enlightened corporate self-interest; goodwill
- D) social responsibility; profit maximization; goodwill

Answer: B

Explanation: Some argue, rather convincingly, that accepting social responsibility is actually in the long-term best interests of the corporation. This argument, which is generally referred to as enlightened corporate self-interest, is based on the notion that socially responsible corporations benefit by creating goodwill for themselves, thus motivating consumers to purchase their products, investors to buy their stock, and lawmakers to grant them further legal advantages. In addition, the corporation benefits because the community at large gains from such decisions. If the community at large is healthy, the argument goes, then the corporation that relies on that community will be healthy also.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-08 Explore the need for ethical responsibility in business.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) Julia decides not to dump her used motor oil in the creek that runs behind her garage since that would damage individuals who live downstream and upset the peace and harmony in which she has lived with these neighbors. Name and explain the ethical system Julia has used to make this decision.

Answer: Julia has applied the social contract theory, according to which there is an implied agreement among all individuals within a particular social system to live harmoniously.

Together, each individual gives up freedom.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-04 Describe social contract ethics.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

48) Lisa realizes that her colleagues and her boss judge her based on the way she speaks. Lisa is French and does not speak fluent English. Discuss the situation.

Answer: The social contract theory applies to this situation. Social contract ethics hold that right and wrong are measured by the obligations imposed on each individual by an implied agreement among all the people within a particular social system. One rule that emerges from the social contract is that people should never make unsupported judgments about one another, but should instead always investigate the facts in an effort to uncover the truth about the character of a person or the nature of a situation. Such a rule prevents people from avoiding one another, cheating one another, or, even worse, attacking one another simply because of the way another person looks, speaks, or acts.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-04 Describe social contract ethics.

Bloom's: Evaluate

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) Rachel found a bag of money that fell out of an armored car. She decided to keep the money since she did not have full-time employment and was studying to be a nurse. Name and explain the ethical system that Rachel used to make her decision.

Answer: Rachel used utility thinking, also called cost-benefit thinking, since she only considered the benefits to and problems for herself rather than others.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Ethics

Accessibility: Keyboard Navigation

50) Justin learns that the air bags that his employer, Excel Auto Corporation, installs in its new cars can kill or seriously injure young children when the bags deploy in an auto accident. When he reports this to responsible Excel officials, they redesign and recall the old airbags at considerable expense since "it is the best thing to do for the driving public." Name and explain the ethical system Excel used to make this decision.

Answer: They are applying utilitarianism. The steps in the process are: (1) the action to be evaluated should be stated in unemotional, fairly general terms, (2) a person or classes of people that will be affected by the decision must be identified, (3) good and bad consequences in relation to those people affected must be considered, (4) all alternatives to the action stated in Step 1 must be considered, and (5) a conclusion must be reached based upon the alternative that creates the greatest good for the greatest number of people affected by the action.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Ethics

Accessibility: Keyboard Navigation

51) William develops a new design for a gasoline engine that will increase fuel economy by 30%. He decides not to patent this design because it will be good for the environment and the entire world. Name and explain the ethical system William has used to make this decision.

Answer: William is applying utilitarianism. The steps in the process are, (1) the action to be evaluated should be stated in unemotional, fairly general terms, (2) a person or classes of people that will be affected by the decision must be identified, (3) good and bad consequences in relation to those people affected must be considered, (4) all alternatives to the action stated in Step 1 must be considered, and (5) a conclusion must be reached based upon the alternative that creates the greatest good for the greatest number of people affected by the action.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-05 Outline the steps in applying utilitarianism.

Bloom's: Analyze

AACSB: Ethics

Accessibility: Keyboard Navigation

52) Jason decides not to cheat on an exam since he considers himself a morally reasonable person and the action of cheating on exams will undermine the value of degrees issued by his educational institution. Name and explain the ethical system Jason has used to make this decision.

Answer: Jason is applying rational ethics. Rational ethics believes that it is logical to establish rules that support the continued existence of society, or, in the context of this question, the educational system used in this society.

Difficulty: 3 Hard

Topic: Ethical Theories

Learning Objective: 01-06 Define rational ethics.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

53) Michael is the corporate manager at Hatch & Jake Pvt. Ltd. He is asked to always consider if the benefits to the shareholders outweigh the costs to the corporation. Michael takes the action only if the shareholders' benefits offset corporate costs. Discuss.

Answer: Michael and the company are practicing utility thinking or cost-benefit thinking. This thinking is justified in three ways—the profits to the shareholders must always come first; it is unfair to divert funds that belong to the shareholders to activities that would not benefit them; a corporation's manager is accountable to the shareholders and no one else. However, Hatch & Jake Pvt. Ltd. should consider that the law gives the corporation the status of a legal person, which helps the corporation enjoy legal advantages. They owe an obligation to the public and to the people at large to act responsibly.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Analyze

AACSB: Ethics

Accessibility: Keyboard Navigation

54) Amanda Hutchins sued her managers for making merger decisions that caused shareholders to lose money. The managers argued that they made decisions based on the long-term benefits of the merger to everyone involved, including the local community and the state. Hutchins argued that the shareholders' profits should be the managers' first priority. Analyze the case and the possible ruling of the court.

Answer: Amanda and her shareholders clearly believe in utility thinking—the shareholders' profits should be priority for the managers, and that the corporation's funds should not be diverted into activities that do not result in a profit for them. However, the managers could argue that the corporation enjoys the rights of a legal person and hence, they owe an obligation to the community and people at large. They can argue that the merger was in the best interest of the community. Yet, Amanda stands to win the case, since the court is likely to rule that community benefits need not come at the loss of shareholders.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation

55) Amalgamated Enterprises is considering closing its plant in a small U.S. town where its average wages are \$10 per hour, and moving production to a foreign country where average wages for the same work will be \$2 per hour. Amalgamated is the largest employer in the community. What theories of social responsibility may Amalgamated's management consider in making a final decision about the plant?

Answer: The traditional view of corporate responsibility is that a company has no social responsibility beyond making a profit for its shareholders. Today, many corporations consider the impact of their decisions on the workers and community. Shareholder theory considers these interests. Enlightened self-interest considers the goodwill and related legal and marketing benefits of being socially responsible.

Difficulty: 3 Hard

Topic: Social Responsibility in the Corporate Sector

Learning Objective: 01-07 Explain the dyadic nature of ethics in government.

Bloom's: Evaluate

AACSB: Ethics

Accessibility: Keyboard Navigation