

## Chapter 01

### The Pay Model

#### Multiple Choice Questions

1. Which of the following programs introduced by Congress includes restrictions on executive pay that are designed to discourage executives from taking "unnecessary and excessive risks"?  
  
A. Corporate Welfare Program  
B. Employee Welfare Program  
C. Troubled Asset Relief Program  
D. Corporate Liability Relief Program
2. Hourly compensation costs for production workers in manufacturing are higher in \_\_\_\_\_ than in the United States.  
  
A. Germany  
B. Czech Republic  
C. Mexico  
D. China
3. One of the reasons why 8 in 10 of the uninsured in the United States are from working families is that \_\_\_\_\_.  
  
A. many larger employers do not offer health insurance as it does not guarantee an increase in productivity levels  
B. health insurance is more costly for larger employers  
C. many small employers are much less likely than larger employers to offer health insurance to their employees  
D. most workers decline health insurance when offered by their employers

4. The degree to which pay influences individual and aggregate motivation among employees at any point in time is referred to as a(n):
- A. sorting effect.
  - B. incentive effect.
  - C. turnover effect.
  - D. directional effect.
5. Which of the following is an example of a relational return?
- A. Short-term incentives
  - B. Employment security
  - C. Long-term incentives
  - D. Income protection
6. Which of the following is given as an increment to the base pay in recognition of past work behavior?
- A. Base pay
  - B. Long-term incentive
  - C. Merit pay
  - D. Short-term incentive
7. GreenRain Corp. faces an increase in employee turnover rate. The CEO calls for a board meeting with the senior executives to discuss the issue. Who among the following suggests increasing the relational returns that employees receive to reduce the turnover rate at GreenRain?
- A. Tom suggests increasing the decision-making authorities given to the employees to make work more challenging.
  - B. Deena suggests providing more work/life balance for the employees by increasing the number of paid leaves.
  - C. Syed suggests increasing the medical insurance coverage offered to the employees.
  - D. Liam suggests increasing merit bonuses.
8. Which form of pay does not permanently increase labor costs?
- A. Incentive
  - B. Merit pay
  - C. Cost-of-living adjustments
  - D. Base pay

9. Recent surveys show that, on average, an outstanding performer receives a \_\_\_\_\_ merit increase, an average performer a \_\_\_\_\_ merit increase, and a poor performer a 0.4% merit increase.
- A. 10.5%; 7%
  - B. 8.4%; 5.2%
  - C. 6.7%; 4.2%
  - D. 4.4%; 2.8%
10. Which of the following companies is taking efforts to improve the work/life balance of its employees?
- A. MH Corp. increases the number of paid holidays given to its senior employees.
  - B. Kay Corp. increases the transport allowance for its employees by 10 percent.
  - C. Haywire Corp. allows its employees to buy company stocks at a reduced price of \$30 per share.
  - D. Halo Corp. increases the variable pay for its employees.
11. Variable pay may also be called \_\_\_\_\_.
- A. relational returns
  - B. pensions
  - C. stock options
  - D. incentives
12. Which of the following is often the largest component in an executive pay package?
- A. Base pay
  - B. Stock options
  - C. Merit pay
  - D. Perks
13. Among employers that provide health insurance, the cost to provide family coverage per year per employee is approximately \_\_\_\_\_.
- A. \$4,000
  - B. \$9,000
  - C. \$16,000
  - D. \$22,000

14. Robert, the CEO of GameTrack Corp., wants to restructure the pay plan without increasing the labor costs in the long run. He is most likely to achieve this, while retaining his top employees, by:
- A. increasing base pay and decreasing variable pay.
  - B. increasing incentive pay and decreasing base pay.
  - C. hiring more employees and reducing the marginal product output requirements.
  - D. providing across-the-board increases on a monthly basis.
15. Incentives do not permanently increase labor costs because:
- A. they rely on a subjective rating of performance.
  - B. they are given based on the past performances of the employees.
  - C. they increase the base wage.
  - D. they are one-time payments.
16. A difference between incentives and merit increases is that incentives:
- A. do not increase the base wage, whereas merit increases the base wage.
  - B. cannot be tied to the performance of an individual, whereas merit increases can be tied to the performance of an individual.
  - C. rely on a subjective measure of performance, whereas merit increases rely on an objective measure of performance.
  - D. are relational returns, whereas merit increases are part of the total compensation.
17. Which of the following is a fundamental objective, and NOT a policy, in the pay model?
- A. Fairness
  - B. Competitiveness
  - C. Contributions
  - D. Alignment
18. Which of the following is a policy, and NOT an objective, in the pay model?
- A. Ethics
  - B. Competitiveness
  - C. Efficiency
  - D. Fairness

19. Incentives and merit guidelines are techniques of the \_\_\_\_\_ policy of the pay model.
- A. internal alignment
  - B. external competitiveness
  - C. employee contributions
  - D. management of the pay system
20. \_\_\_\_\_ refers to comparisons among jobs or skills inside a single organization.
- A. External competitiveness
  - B. Internal alignment
  - C. Compliance
  - D. Merit increase
21. In the context of pay relationships, which of the following is illegal in the United States?
- A. Paying on the basis of the nature of jobs
  - B. Paying on the basis of pay comparisons with competitors
  - C. Paying on the basis of one's age
  - D. Paying on the basis of one's skill level
22. Managers seek internal alignment within their organization by:
- A. matching the competitors' pay rates.
  - B. following FLSA guidelines.
  - C. using fair merit increases.
  - D. paying on the basis of similarities among jobs.
23. Compensation policy choices that affect the pay level relative to other companies are most closely associated with the \_\_\_\_\_ aspect of the pay model.
- A. internal alignment
  - B. external competitiveness
  - C. employee contributions
  - D. pay system management

24. The decisions to implement pay for performance, flat rate pay, and profit sharing are examples of \_\_\_\_\_ policy decisions.
- A. internal alignment
  - B. efficiency
  - C. employee contributions
  - D. management
25. According to the text, which of the following decisions should be made jointly?
- A. Internal alignment and management decisions
  - B. External competitiveness and employee contribution decisions
  - C. Employee contribution and internal alignment decisions
  - D. Management and external competitiveness decisions
26. Which of the following policy decisions directly affects employees' attitudes and work behaviors?
- A. Employee contributions
  - B. Internal alignment
  - C. External competitiveness
  - D. Management
27. You are an HR manager, and your boss has told you to find the best way to raise job performance. After some research, you find that \_\_\_\_\_ have the greatest instrumental value.
- A. job responsibilities
  - B. training and skill development programs
  - C. goal setting and job enrichment
  - D. monetary incentives
28. Which of the following is NOT a question to ask for determining if research has value?
- A. Is the research useful?
  - B. Can alternative explanations be ruled out?
  - C. Was the research conducted by PhD researchers?
  - D. Is correlation separated from causation?

29. A measure of how changes in one variable are related to changes in another variable is the:
- A. standard deviation
  - B. analysis of variance
  - C. correlation coefficient
  - D. mean deviation
30. The best way to establish \_\_\_\_\_ is to account for competing explanations, either statistically or through control groups.
- A. causation
  - B. profitability
  - C. correlation coefficient
  - D. internal alignment

### **True / False Questions**

31. When unemployment increases, the proportion of the population covered by health insurance decreases.
- True   False
32. The degree to which pay influences individual and aggregate motivation among employees is called the sorting effect.
- True   False
33. Base wage is the overtime pay given to employees who are exempt from regulations of the Fair Labor Standards Act.
- True   False
34. Commissions are an example of incentives.
- True   False
35. Most U.S. firms use merit pay increases.
- True   False

36. Base wage reflects both the value of the work and individual employee skills and experience.
- True False
37. Pension and health benefits are a very large component of total compensation for many large companies such as American Airlines and GM.
- True False
38. A major challenge facing most employers is the rising cost of health care benefits.
- True False
39. Procedural fairness suggests that the way a pay decision is made is of less importance to employees than the results of the decision.
- True False
40. If the objective is to increase customer satisfaction, then incentive programs and merit pay might be used to pay for performance.
- True False
41. Objectives guide the design of pay systems and provide the standards for evaluating their effectiveness.
- True False
42. Even if the federal compensation laws change, it is unnecessary to change pay systems to ensure continued compliance.
- True False
43. Internal alignment refers to comparisons among jobs or skill levels inside a single organization.
- True False
44. Since HR research contains information useful to managers, most managers read research in HR management, and compensation journals.
- True False
45. Management and HR research has conclusively shown that goal setting and job enrichment produce the largest and most reliable increases in job performance.
- True False
46. Monetary incentives produce the biggest increases in job performance.
- True False

47. A study found that only a very small amount of change in CEO pay is related to changes in company performance.
- True False
48. A study of IBM showed that its long-standing policy of no layoffs was the major cause of its strong profits.
- True False
49. Causality is one of the most difficult questions to answer and continues to be an important and sometimes perplexing problem for researchers.
- True False
50. The  $R^2$ , which is an output from a regression analysis, is different from correlation in that it tells us what percentage of the variation is accounted for by the variables we are using to predict or explain.
- True False

### Short Answer Questions

51. Describe the perspective of stockholders on compensation.

52. What are the different ways in which pay can influence employee motivation and behavior?

53. Describe the various returns received from work.

54. List the basic elements of the pay model.

55. Explain the basic compensation objectives of pay systems.

## Chapter 01 The Pay Model **Answer Key**

### Multiple Choice Questions

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B. Employee Welfare Program  
**C. Troubled Asset Relief Program**  
D. Corporate Liability Relief Program

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Topic: Compensation: Does It Matter? (or, "So What?")*

2. Hourly compensation costs for production workers in manufacturing are higher in \_\_\_\_\_ than in the United States.

**A. Germany**  
B. Czech Republic  
C. Mexico  
D. China

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Topic: Compensation: Definition, Please*

3. One of the reasons why 8 in 10 of the uninsured in the United States are from working families is that \_\_\_\_\_.

A. many larger employers do not offer health insurance as it does not guarantee an increase in productivity levels  
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*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Topic: Compensation: Definition, Please*

4. The degree to which pay influences individual and aggregate motivation among employees at any point in time is referred to as a(n):
- A. sorting effect.
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*Topic: Compensation: Definition, Please*

5. Which of the following is an example of a relational return?
- A. Short-term incentives
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*Accessibility: Keyboard Navigation*

*Difficulty: 2 Medium*

*Topic: Forms of Pay*

6. Which of the following is given as an increment to the base pay in recognition of past work behavior?
- A. Base pay
  - B. Long-term incentive
  - C.** Merit pay
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*Accessibility: Keyboard Navigation*

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*Topic: Forms of Pay*

7. GreenRain Corp. faces an increase in employee turnover rate. The CEO calls for a board meeting with the senior executives to discuss the issue. Who among the following suggests increasing the relational returns that employees receive to reduce the turnover rate at GreenRain?

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*Accessibility: Keyboard Navigation*

*Difficulty: 3 Hard*

*Topic: Forms of Pay*

8. Which form of pay does not permanently increase labor costs?

- A. Incentive
- B. Merit pay
- C. Cost-of-living adjustments
- D. Base pay

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9. Recent surveys show that, on average, an outstanding performer receives a \_\_\_\_\_ merit increase, an average performer a \_\_\_\_\_ merit increase, and a poor performer a 0.4% merit increase.

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*Accessibility: Keyboard Navigation*  
*Difficulty: 3 Hard*  
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11. Variable pay may also be called \_\_\_\_\_.

- A. relational returns
- B. pensions
- C. stock options
- D. incentives

*Accessibility: Keyboard Navigation*  
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12. Which of the following is often the largest component in an executive pay package?

- A. Base pay
- B. Stock options
- C. Merit pay
- D. Perks

*Accessibility: Keyboard Navigation*  
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13. Among employers that provide health insurance, the cost to provide family coverage per year per employee is approximately \_\_\_\_\_.

- A. \$4,000
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  - C. hiring more employees and reducing the marginal product output requirements.
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15. Incentives do not permanently increase labor costs because:
- A. they rely on a subjective rating of performance.
  - B. they are given based on the past performances of the employees.
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17. Which of the following is a fundamental objective, and NOT a policy, in the pay model?

- A.** Fairness
- B. Competitiveness
- C. Contributions
- D. Alignment

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: A Pay Model*

18. Which of the following is a policy, and NOT an objective, in the pay model?

- A. Ethics
- B.** Competitiveness
- C. Efficiency
- D. Fairness

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: A Pay Model*

19. Incentives and merit guidelines are techniques of the \_\_\_\_\_ policy of the pay model.

- A. internal alignment
- B. external competitiveness
- C.** employee contributions
- D. management of the pay system

*Accessibility: Keyboard Navigation*  
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20. \_\_\_\_\_ refers to comparisons among jobs or skills inside a single organization.

- A. External competitiveness
- B.** Internal alignment
- C. Compliance
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21. In the context of pay relationships, which of the following is illegal in the United States?

- A. Paying on the basis of the nature of jobs
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- C.** Paying on the basis of one's age
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*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: A Pay Model*

22. Managers seek internal alignment within their organization by:

- A. matching the competitors' pay rates.
- B. following FLSA guidelines.
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- D.** paying on the basis of similarities among jobs.

*Accessibility: Keyboard Navigation*  
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23. Compensation policy choices that affect the pay level relative to other companies are most closely associated with the \_\_\_\_\_ aspect of the pay model.

- A. internal alignment
- B.** external competitiveness
- C. employee contributions
- D. pay system management

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24. The decisions to implement pay for performance, flat rate pay, and profit sharing are examples of \_\_\_\_\_ policy decisions.

- A. internal alignment
- B. efficiency
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- D. management

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25. According to the text, which of the following decisions should be made jointly?

- A. Internal alignment and management decisions
- B.** External competitiveness and employee contribution decisions
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- D. Management and external competitiveness decisions

Accessibility: Keyboard Navigation

Difficulty: 1 Easy

Topic: A Pay Model

26. Which of the following policy decisions directly affects employees' attitudes and work behaviors?

- A.** Employee contributions
- B. Internal alignment
- C. External competitiveness
- D. Management

Accessibility: Keyboard Navigation

Difficulty: 1 Easy

Topic: A Pay Model

27. You are an HR manager, and your boss has told you to find the best way to raise job performance. After some research, you find that \_\_\_\_\_ have the greatest instrumental value.

- A. job responsibilities
- B. training and skill development programs
- C. goal setting and job enrichment
- D.** monetary incentives

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Difficulty: 2 Medium

Topic: Caveat Emptor-Be an Informed Consumer

28. Which of the following is NOT a question to ask for determining if research has value?

- A. Is the research useful?
- B. Can alternative explanations be ruled out?
- C.** Was the research conducted by PhD researchers?
- D. Is correlation separated from causation?

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29. A measure of how changes in one variable are related to changes in another variable is the:

- A. standard deviation
- B. analysis of variance
- C. correlation coefficient**
- D. mean deviation

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Caveat Emptor-Be an Informed Consumer

30. The best way to establish \_\_\_\_\_ is to account for competing explanations, either statistically or through control groups.

- A. causation**
- B. profitability
- C. correlation coefficient
- D. internal alignment

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Caveat Emptor-Be an Informed Consumer

### True / False Questions

31. When unemployment increases, the proportion of the population covered by health insurance decreases.

**TRUE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Compensation: Definition, Please

32. The degree to which pay influences individual and aggregate motivation among employees is called the sorting effect.

**FALSE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy

33. Base wage is the overtime pay given to employees who are exempt from regulations of the Fair Labor Standards Act.

**FALSE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

34. Commissions are an example of incentives.

**TRUE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

35. Most U.S. firms use merit pay increases.

**TRUE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

36. Base wage reflects both the value of the work and individual employee skills and experience.

**FALSE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

37. Pension and health benefits are a very large component of total compensation for many large companies such as American Airlines and GM.

**TRUE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

38. A major challenge facing most employers is the rising cost of health care benefits.

**TRUE**

Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: Forms of Pay

39. Procedural fairness suggests that the way a pay decision is made is of less importance to employees than the results of the decision.

**FALSE**

*Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: A Pay Model*

40. If the objective is to increase customer satisfaction, then incentive programs and merit pay might be used to pay for performance.

**TRUE**

*Accessibility: Keyboard Navigation  
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Topic: A Pay Model*

41. Objectives guide the design of pay systems and provide the standards for evaluating their effectiveness.

**TRUE**

*Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: A Pay Model*

42. Even if the federal compensation laws change, it is unnecessary to change pay systems to ensure continued compliance.

**FALSE**

*Accessibility: Keyboard Navigation  
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43. Internal alignment refers to comparisons among jobs or skill levels inside a single organization.

**TRUE**

*Accessibility: Keyboard Navigation  
Difficulty: 1 Easy  
Topic: A Pay Model*

44. Since HR research contains information useful to managers, most managers read research in HR management, and compensation journals.

**FALSE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*  
*Topic: Caveat Emptor-Be an Informed Consumer*

45. Management and HR research has conclusively shown that goal setting and job enrichment produce the largest and most reliable increases in job performance.

**FALSE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: Caveat Emptor-Be an Informed Consumer*

46. Monetary incentives produce the biggest increases in job performance.

**TRUE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: Caveat Emptor-Be an Informed Consumer*

47. A study found that only a very small amount of change in CEO pay is related to changes in company performance.

**TRUE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: Caveat Emptor-Be an Informed Consumer*

48. A study of IBM showed that its long-standing policy of no layoffs was the major cause of its strong profits.

**FALSE**

*Accessibility: Keyboard Navigation*  
*Difficulty: 1 Easy*  
*Topic: Caveat Emptor-Be an Informed Consumer*

49. Causality is one of the most difficult questions to answer and continues to be an important and sometimes perplexing problem for researchers.

**TRUE**

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*Difficulty: 1 Easy*  
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50. The  $R^2$ , which is an output from a regression analysis, is different from correlation in that it tells us what percentage of the variation is accounted for by the variables we are using to predict or explain.

**FALSE**

*Accessibility: Keyboard Navigation*

*Difficulty: 1 Easy*

*Topic: Caveat Emptor-Be an Informed Consumer*

### Short Answer Questions

51. Describe the perspective of stockholders on compensation.

Stockholders are interested in how employees are paid. Using stock to pay employees creates a sense of ownership that improves performance and increases stockholder wealth. However, granting employees too much ownership dilutes stockholder wealth.

Stockholders have a particular interest in executive pay. The interests of executives are aligned with those of shareholders who hope that company performance will be higher.

*Difficulty: 2 Medium*

*Topic: Compensation: Definition, Please*

52. What are the different ways in which pay can influence employee motivation and behavior?

Pay can influence employee motivation and behavior in two ways:

- i. Pay can affect the motivational intensity, direction, and persistence of current employees. The degree to which pay influences individual and aggregate motivation among the employees at any point in time is referred to as an incentive effect.
- ii. Pay can also have an indirect, but important influence, via, a sorting effect. Different types of pay strategies cause different types of people to apply to and stay with an organization.

*Difficulty: 2 Medium*

*Topic: Compensation: Definition, Please*

53. Describe the various returns received from work.

Returns are categorized into two types:

- i. Relational returns are psychological and include learning opportunities, status, challenging work, and other psychological aspects.
- ii. Total compensations are transactional and include:
  - a. Pay received directly as cash through base pay, merit, incentives, cost-of-living adjustments, etc.
  - b. Pay received indirectly as benefits through pensions, medical insurance, programs to help balance work and life demands, bright colored uniform, etc.

*Difficulty: 2 Medium*  
*Topic: Forms of Pay*

54. List the basic elements of the pay model.

The pay model contains three basic building blocks:

- i. the compensation objective,
- ii. the policies that form the foundation of the compensation system, and
- iii. the techniques that make up the compensation system.

*Difficulty: 1 Easy*  
*Topic: A Pay Model*

55. Explain the basic compensation objectives of pay systems.

The basic objectives include efficiency, fairness, ethics, and compliance with laws and regulations.

- i. Efficiency can be stated more specifically: (1) improving performance, increasing quality, delighting customers and stockholders, and (2) controlling labor costs.
- ii. The fairness objective calls for fair treatment for all employees by recognizing both employee contributions (e.g., higher pay for greater performance, experience, or training) and employee needs (e.g., a fair wage as well as fair procedures).
- iii. Ethics means the organization cares about how its results are achieved. Because it is so important, it is inevitable that managing pay sometimes creates ethical dilemmas.
- iv. Compliance as a pay objective means conforming to federal and state compensation laws and regulations. If laws change, pay systems may need to change, too, to ensure continued compliance. As companies go global, they must comply with the laws of all the countries in which they operate.

*Difficulty: 2 Medium*  
*Topic: A Pay Model*