

Chapter 02

Business Ethics

True / False Questions

1. Ethical conversation is primarily about finding the one and only right thing to do.
True False
2. Business ethics is the application of ethics to the special problems and opportunities experienced by business people.
True False
3. The social responsibility of business consists only of the expectations employees have of employers.
True False
4. Insurer American International Group (AIG) is well known in the insurance industry for its ethical and cautious investments protecting investors.
True False
5. In some countries, businesses must pay bribes in order to receive legitimate supplies.
True False
6. In an ethical analysis using the WPH Framework referenced in the text, owners are the most important stakeholders and should receive the greatest consideration in decision making regardless of the type of problem addressed.
True False
7. The definition of stakeholder is the same as the definition of shareholder.
True False
8. The community in which a firm operates would not be considered a stakeholder of the firm.
True False
9. Situational ethics is the same thing as ethical relativism.
True False
10. Consequentialism provides a rigid set of rules to follow regardless of the situation.
True False

11. Utilitarianism is a form of consequentialism.

True False

12. Ethics is not an issue in accounting because of the primarily objective data involved in that field.

True False

Multiple Choice Questions

13. Which of the following was the result in regard to the statute of limitations in the Case Opener in which the plaintiff claimed that the drug Accutane caused her to develop ulcerative colitis and irritable bowel syndrome?

- A. That because the plaintiff was not warned by her doctor of specific risks caused by the medication, the statute of limitations did not begin to run until she became aware of an advertisement discussing the risk.
- B. That because the plaintiff was warned by her doctor of specific risks caused by the medication, the statute of limitations began to run prior to the time she became aware of an advertisement discussing the risk; and the statute of limitations barred her claim.
- C. That the statute of limitations began to run on the plaintiff's claim when the risk of the drug was discovered by the manufacturer, not on the date on which the plaintiff became aware of the risk and that the statute of limitations, therefore, barred her claim.
- D. That in lawsuits involving this type of drug, there is no statute of limitations because each day the plaintiff suffers from pain results in the beginning of a new cause of action.
- E. That the defendant committed fraud preventing it from relying on the statute of limitations.

14. Which of the following presents a problem when considering the theory of ethics known as absolutism?

- A. The questionable nature of the rules in most absolutist repositories seems overly flexible when applied to different situations.
- B. The unquestionable nature of the rules in most absolutist repositories seems overly inflexible when applied to different situations.
- C. The lack of objectivity.
- D. The fact that most individuals associated with this theory have been proven to have acted to the detriment of their followers in one way or another.
- E. The allegation that an excessive number of followers actually follow consequentialism.

15. Which of the following is the application of ethics to special problems and opportunities experienced by those in business?
- A. Situational ethics
 - B. Consequentialism
 - C. Business ethics
 - D. Sarbanes-Oxley principles
 - E. Business utilitarianism
16. Which of the following is the study and practice of decisions about what is good, or right?
- A. Morals
 - B. Ethics
 - C. Consequences
 - D. Law
 - E. Business
17. A local Chamber of Commerce plans a seminar on "the social responsibility of business in our community." What does that term reference?
- A. The responsibility of business to make profit for shareholders.
 - B. The responsibility of business to have annual meetings.
 - C. The expectations that the community imposes on firms doing business inside its borders.
 - D. The expectations of employees regarding wage rates.
 - E. The expectations of management in regard to adequate utility resources.
18. Which of the following is the minimal standard essential for the development of business ethics?
- A. Meeting the requirements of deontology.
 - B. Meeting the requirement of the public disclosure test.
 - C. Meeting the requirement of utilitarianism.
 - D. Satisfying the company's board of directors.
 - E. The legality of a decision.
19. Which of the following is true regarding business ethics?
- A. Business ethics refers to standards of business conduct but does not result in a set of correct decisions.
 - B. Business ethics results in a set of correct decisions and does not simply refer to standards of business conduct.
 - C. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of deontology is followed.
 - D. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of rule utilitarianism is followed.
 - E. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of virtue ethics is followed.

20. Which of the following was the result in *U.S. v. Alfred Caronia*, the case in the text in which the defending pharmaceutical representative was charged with illegally promoting off-label use of a drug?
- A. That the defendant had not indeed promoted off-label use of the drug at issue, and the case was dismissed.
 - B. That although the defendant promoted off-label use of the drug at issue, the off-label use was later approved as a valid and appropriate use, and the case was dismissed.
 - C. That the defendant's speech failed to meet the criteria for classification as commercial speech and that, therefore, the defendant had no constitutional argument in opposition to the charges against him.
 - D. That although the defendant's speech met the criteria for classification as commercial speech, no constitutional protection has been historically extended to that type of speech; and the defendant, therefore, had no constitutional argument in opposition to the charges against him.
 - E. That although the defendant's speech met the criteria for classification as commercial speech entitled to constitutional protection under some conditions, the government met the requirements for regulation of the particular speech at issue involving off-label usage.
21. Which of the following is true regarding revelations involving Enron and WorldCom?
- A. That their upholding of high ethical standards in regard to accounting practices supports the conclusion that the business world should be allowed to regulate itself.
 - B. That WorldCom, a privately held company, had high ethical standards but that Enron, a publicly traded company, engaged in illegal accounting practices supporting the conclusion that privately held companies should be allowed to regulate themselves whereas publicly held companies need significant government regulation.
 - C. That WorldCom, a privately held company, engaged in illegal accounting practices but that Enron, a publicly traded company, had high ethical standards supporting the conclusion that privately held companies need significant government regulation whereas publicly held companies should be allowed to regulate themselves.
 - D. That although illegal accounting practices occurred, it is so difficult to find and regulate such practices that any regulation should be left to the free market.
 - E. That accounting issues with these companies illustrate that the business world cannot be allowed to regulate itself ethically and that government oversight is needed.
22. Which of the following is asserted by the principle of rights?
- A. That whether a business decision is ethical depends on how the decision affects the rights of all involved.
 - B. That whether a business decision is ethical depends on how the decision affects the rights of stockholders without consideration of other stakeholders.
 - C. That whether a business decision is ethical depends on how the decision affects the rights of employees without consideration of other stakeholders.
 - D. That whether a business decision is ethical depends on how the decision affects the overall economy.
 - E. That whether a business decision is ethical depends on how the decision affects the rights of organized labor without consideration of other stakeholders.

23. What is the system of "guanxi" used in China?
- A. It refers to a system of relationship building woven together by social ties.
 - B. It refers to a system of strict ethical rules.
 - C. It refers to a prohibition against criticism of government rules and regulations.
 - D. It refers to a system by which business people attempt to avoid strict Chinese regulations.
 - E. It refers to a system of smuggling.
24. What do the letters "WPH" mean in reference to the "WPH Framework for Business Ethics" discussed in the text?
- A. Who, Purpose, and How
 - B. When, Plan, and How
 - C. Why, Procedure, and Hope
 - D. Where, Plan, and Hope
 - E. Where, Procedure, and How
25. Which of the following is true under the WPH process of ethical decision making?
- A. The interest of management is ranked higher than that of employees when decisions are made.
 - B. The interest of owners is ranked higher than that of both employees and management when decisions are made.
 - C. When decisions are made, the interest of the community as a whole is considered last.
 - D. The interest of management is ranked higher than that of employees when decisions are made, but the interest of owners is ranked higher than the interest of any group.
 - E. There is not a framework under WPH for ranking one stakeholder above another.
26. Which of the following are stakeholders of a business?
- A. Shareholders but not employees
 - B. Employees but not shareholders
 - C. Customers but not employees or shareholders
 - D. Management but not employees
 - E. Shareholders, employees, customers, and management

"Environmental Concerns." Connie, the president of a company that makes paper, has a new interest in the environment. She recently went to a seminar on environmental dangers and has decided to take steps to clean things up. She started at home and has now felt compelled to change things at work. Connie had to face the fact that her company has been cheating and is not in compliance with applicable environmental regulations due to dumping in a nearby river. Her company has never been cited because it employs a very large number of people in the community, including the mayor's wife and the chief-of-police's brother. On her mission to clean things up, Connie has decided to go even further than the law requires and install the very latest environmental protections. When she announced her plan, the chair of the company's board of directors, Brooke, had a meeting with Connie. Brooke told Connie to analyze the situation carefully because the cost of the additional equipment would mean no dividend to shareholders and no raise for employees. Furthermore, Brooke told Connie that installing all the new equipment would result in higher prices for the company's paper product and could bankrupt the company because of foreign competition. Brooke hinted that Connie could be fired if she persisted. Brooke suggested that Connie just be concerned with a minimal standard of ethics. Connie decides to go forward with her plan to clean things up under the theory that she wants to treat others in the same manner that she wants to be treated. Under Connie's theory, if she did not understand the importance of the environmental improvements, she would want them to be thrust upon her.

27. Which of the following is true regarding meeting the minimal standard of business ethics suggested by Brooke?

- A. Decisions must be legal.
- B. Decisions must meet the criteria of a follower of deontology.
- C. Decisions must meet the criteria of a follower of utilitarianism.
- D. Decisions must receive a majority vote of acceptance by employees.
- E. Decisions must be legal and decisions must also receive a majority vote of acceptance by employees.

28. Which of the following would be a stakeholder in the above company?

- A. The community only
- B. The shareholders only
- C. Future generations only
- D. The community and shareholders only
- E. The community, shareholders, and future generations

29. Connie's idea is best referred to as _____.

- A. The Golden Rule
- B. The Disclosure Principle
- C. The Help Peers Test
- D. The Sarbanes-Oxley Rule
- E. The Greenhouse Rule

30. Positive abstractions that capture our sense of what is good or desirable are called _____.

A. Ethical ideas
B. Values
C. Conscience demands
D. Desirable principles
E. Action goals
31. Which of the following are values in the WPH process of ethical decision making?

A. Freedom only
B. Security only
C. Efficiency only
D. Freedom and security, but not efficiency
E. Freedom, security, and efficiency
32. The idea that we should interact with other people in a manner consistent with the manner in which we would like them to interact with us is called the _____.

A. Equalization Rule
B. Ethical Realization Rule
C. Silver Rule
D. Golden Rule
E. Ten Commandments Rule
33. What is the name of the law signed by President Bush in the wake of several corporate accounting scandals?

A. The Sarbanes-Oxley Act
B. The Public Accounting Act
C. The Certified Public Accounting Act
D. The Whaley-Mallicoat Act
E. The Corporate Scandal Act

34. Which of the following is true regarding activities of the Public Company Accounting Oversight Board?
- A. The Board ensures that auditors and public accounting firms compile accurate and truthful financial reports for the companies they audit, but it has no responsibility in regard to whistle-blowing protection.
 - B. The Board requires that companies devise a system that allows employees to report suspicions of unethical behavior, but it does not address financial reports prepared by auditors and public accounting firms.
 - C. The Board requires that the universalization test be used as the primary ethical guideline and also mandates protection for whistle-blowers who report suspicious activity involving financial reports.
 - D. The Board ensure that auditors and public accounting firms compile accurate and truthful financial reports for the companies they audit and also requires that companies devise a system that allows employees to report suspicions of unethical behavior.
 - E. The Public Company Accounting Oversight Board was abolished during the Obama administration and no longer exists.
35. According to the text, which of the following may be a part of the "how" in the WPH process of decision making?
- A. Public disclosure, universalization, security, and the Golden Rule
 - B. Values, public disclosure, and security
 - C. Profit maximization, security, and public disclosure
 - D. Whistle-blowing, the Golden Rule, values, and public disclosure
 - E. Public disclosure, universalization, and the Golden Rule
36. The "public disclosure" test for ethical behavior is sometimes referred to as the _____ test.
- A. Television
 - B. Powell
 - C. Self-conscious
 - D. Golden
 - E. Primary
37. The _____ for ethical behavior seeks consideration of what the world would be like if a decision is copied by everyone else.
- A. Golden rule
 - B. Universalization test
 - C. Public disclosure
 - D. Relevant disclosure
 - E. World rule

38. Which of the following is true regarding steps taken by news corporations to protect confidential records?

- A. News corporations are putting numerous security barriers and encryptions around their records so that nobody can gain access to them.
- B. News corporations are attempting to protect information written by their own employees, but efforts are not made to protect confidential sources because constitutional protection does not extend to confidential sources.
- C. News corporations are not bothering with security barriers to the extent as in previous decades because government regulation requires that information be turned over, and there is no point in taking drastic measures to protect such information.
- D. New regulations make significant privacy barriers illegal in regard to news corporations, so many barriers have been or are being removed.
- E. Because of the respect given to confidential records by the U.S. government and its enforcement agencies, news corporations see little need to enhance protection of confidential records.

"Accounting Advice." Brad, a newly hired Certified Public Accountant, who barely passed his boards, was asked by a business client, a chief executive officer, about the effect of the Sarbanes-Oxley Act on an accounting issue. Brad assured the client that the client should not be concerned about the Act because it is very vague, unspecific, and difficult to understand. Brad told the CEO that in any event, the CEO could not be held personally responsible regardless of what happened because only company business was involved. Brad also told the CEO that there is no oversight involved with the act. Later that same day, a coworker of Brad discovered that the CEO had been involved in misstating some financial reports and had also destroyed financial documents to cover up fraud. An employee at the company, Laura, had informed the coworker as well as the SEC. When the issue was mentioned to the CEO, he immediately fired Laura.

39. Which of the following is true regarding Brad's statement that the CEO could not be held liable for violations of the act?

- A. Brad is correct. Under no circumstances can a CEO be held personally responsible for violations under the act. Any fines would be imposed upon the business entity.
- B. Brad is incorrect. The act provides for harsh penalties, and a CEO who knows that the company's financial reports are incorrect but claims that they are truthful, can be heavily fined. There are no penalties, however, for destruction of financial documents.
- C. Brad is incorrect. The act provides for harsh penalties, and a CEO who destroys or changes financial documents to mislead can be heavily fined. There are no penalties, however, for misstatements of a company's financial reports because the company is solely responsible for its statements.
- D. Brad is incorrect, but any fine against a CEO under the act cannot exceed a nominal amount of \$1,000.
- E. Brad is incorrect. The act provides for harsh penalties, and a CEO who knows that the company's financial reports are incorrect but claims that they are truthful, can be heavily fined. Additionally, a CEO who destroys or changes financial documents to mislead can be heavily fined.

40. Which of the following is true regarding the Act and Laura's firing?
- A. The act does not provide protection for whistle-blowers such as Laura.
 - B. The act provides protection for whistle-blowers only if it can be shown that a significant amount of money, in excess of \$5,000, was involved in the incident involved.
 - C. The act provides protection for whistle-blowers only if it can be shown that a significant amount of money, in excess of \$10,000, was involved in the incident involved.
 - D. The act provides protection for whistle-blowers who work for an accounting firm, but not for any other employees.
 - E. Laura's whistle-blowing would be protected under the act, and her firing was illegal.
41. Contrary to Brad's statement, does the Sarbanes-Oxley Act create a board of oversight; and, if so, what is its name?
- A. Brad is correct. No oversight board was created.
 - B. A board called the Public Company Accounting Oversight Board was created by the Act.
 - C. A board called the Public Accountability Commission was created by the Act.
 - D. A board called the CPA Oversight Commission was created by the Act.
 - E. A board called the Federal Accountability Commission was created by the Act.
42. The ethical theory that requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma is called _____.
- A. Situational ethics
 - B. Ethical relativism
 - C. Absolutism
 - D. Consequentialism
 - E. Relativity ethics
43. How is absolutism different from ethical relativism and situational ethics?
- A. It applies utilitarianism.
 - B. It holds that a cost-benefit analysis should be applied.
 - C. It holds that whether an action is moral does not depend on the perspective of the person facing the ethical dilemma.
 - D. It applies virtue ethics and concentrates on the accepted values of the person at issue as well as those of the community involved.
 - E. It applies corporate ethics principles.

44. Which of the following is true regarding the relationship between ethical relativism and situational ethics?

- A. Like ethical relativism, situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma; but unlike ethical relativism, situational ethics allows us to judge other people's actions.
- B. Like ethical relativism, situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma and also like ethical relativism, situational ethics allows us to judge the actions of others.
- C. While the two theories are similar, ethical relativism upholds the existence of objective moral standards whereas situational ethics refuses to recognize the existence of objective moral standards.
- D. Ethical relativism and situational ethics are the same theory.
- E. There is no relationship between ethical relativism and situational ethics because the theories are fundamentally opposed to each other.

45. Which of the following requires that we see murder as a moral action as long as the murderer believes that the action is best for himself or herself?

- A. Absolutism
- B. Deontology
- C. Categorical imperative
- D. Uncertainty of thought
- E. Ethical relativism

46. Which of the following is also referred to as ethical fundamentalism?

- A. Ethical relativism
- B. Absolutism
- C. Social responsibility
- D. Ethical absolutism
- E. Absolute theory

"Fast Food Dilemma." Richard, who just started at his new job as an assistant manager at a fast-food restaurant, wants to make a good impression. He thinks that things are going great. On only the second day on the job, however, he sees his boss Jill, the manager, slink out of the restaurant with a big box of hamburger that she puts in her car. Jill then speeds away. Richard is fairly certain that Jill did not pay for the hamburger. Richard asks advice of his best friend, Bruce; his girlfriend, Sally; his sister, Jenny; and his dad, Frank. Bruce says that there are no real objective standards and that Richard should just decide what is best for him. Sally says that Richard should focus on the consequences and focus on the greatest benefit to all involved. She believes that it will do no real harm for Richard to keep his mouth shut because the fast-food restaurant is making plenty of money and probably does not pay Jill enough anyway. Plus, getting in trouble with Jill could cause problems at work, and if Richard loses his job, Richard and Sally might have to put off their marriage. Jenny says that on balance the rule producing the greatest good would be to tell Jill because stealing does not generally produce the greatest satisfaction. Richard's dad says that as a matter of principle Richard should tell Jill because stealing is simply wrong.

47. Which of the following theories most accurately fits the advice given by Bruce?

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

48. Which of the following theories most accurately fits the advice given by Sally?

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

49. Which of the following theories most accurately fits the advice given by Jenny?

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

50. Which of the following theories most accurately fits the advice given by Frank?

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

51. What is the basis of consequentialism?

- A. Deontology
- B. Categorical imperatives
- C. Inquiry into the consequences
- D. Disregard of consequences
- E. Act utilitarianism

52. Kantian ethics is involved with which of the following ethical theories?
- A. Deontology
 - B. Act utilitarianism
 - C. Rule utilitarianism
 - D. Absolutism
 - E. Situational ethics
53. An ethical theory that urges managers to take those actions that provide the greatest pleasure after having subtracted the pain or harm associated with the action in question is called ____.
- A. Deontology
 - B. Utilitarianism
 - C. Kantian ethics
 - D. Absolutism
 - E. Ethical relativism
54. A business manager who deceives everyone because the manager believes that deception maximizes pleasure over pain in a given situation is acting consistently with which ethical theory?
- A. Act deontology
 - B. Ethical relativism
 - C. Act utilitarianism
 - D. Ethical fundamentalism
 - E. Rule utilitarianism
55. A business manager may consider it wrong to terminate a person whose spouse has terminal cancer because a firm has an absolute obligation to support its employees when they are vulnerable, period. The business manager is acting consistently with which ethical theory?
- A. Deontology
 - B. Ethical relativism
 - C. Act utilitarianism
 - D. Ethical fundamentalism
 - E. Rule utilitarianism
56. A person who believes that they should not cheat on a drug test because if everyone did so, the drug test would be meaningless is applying a[n] ____.
- A. Ethics of care
 - B. Virtual analysis
 - C. Cost-benefit analysis
 - D. Fundamentalist approach
 - E. Categorical imperative

57. Which of the following helps explain why the principle of deontology may be difficult to apply?

- A. People disagree about what duties we owe to one another and which duties are more important.
- B. People disagree about whether consequences are positive or negative.
- C. People disagree about the ethics of care.
- D. People disagree about what duties we owe to one another and also whether consequences are positive or negative.
- E. People disagree about what duties we owe to one another, whether consequences are positive or negative, and about the ethics of care.

58. The ethical system in which the development of virtues, or positive character traits such as courage, justice, and truthfulness, is the basis for morality is called _____.

- A. Absolutism decision
- B. Virtual analysis
- C. Virtue ethics
- D. Fundamentalist approach
- E. Categorical imperative

59. Which of the following consists of acting on the basis of the recognition that certain actions are right or wrong, regardless of their consequences?

- A. Act utilitarianism
- B. Rule utilitarianism
- C. Situational ethics
- D. Virtue ethics
- E. Deontology

60. What is a difficulty with the application of virtue ethics?

- A. The applicable categorical imperatives.
- B. The lack of agreement about the meaning of "the good life."
- C. The applicable principle of rights.
- D. The ethics of care analysis.
- E. The lack of agreement regarding which rules on balance produce the greatest amount of pleasure for the greatest number of people.

61. The _____ adherents believe that when one individual, the caregiver, meets the needs of one other person, the cared-for party, the caregiver is helping to meet the needs of all the individuals who fall within the cared-for party's web of care.

- A. Deontology
- B. Utilitarianism
- C. Absolutism
- D. Virtue ethics
- E. Ethics of care

62. The _____ holds that the right course of action is the option most consistent with the building and maintaining of human relationships.

- A. Ethics of care
- B. Principle of virtue ethics
- C. Deontology
- D. Act utilitarianism
- E. Rule utilitarianism

Essay Questions

63. Assume you are hired as the president of a new company. Write a code of ethics for the firm.

64. Sally is the president of AAA Components, a company that makes small parts for the automotive industry. Customers of AAA components are primarily auto manufacturers. Sally's cousin, Frank, works at the company as a sales representative. A promotion to the sales manager position is open. Frank has applied and so has Susan, another sales representative. While both Frank and Susan are good employees, they are skilled in different areas. Susan is excellent with technology and with placing orders. She does an excellent job in following through with order problems. Frank, on the other hand, is better with customer relations, and customers seem to like him better. Sally would like to promote Frank but she has two concerns. Her first concern is that she does not want it to be perceived that she is being unfair because Frank is family. Her second concern is that she has a suspicion that some customers are somewhat prejudiced against Susan because she is female. Most customers with whom the sales representatives deal are male, and Sally suspects that they may give Frank more consideration than Sally. Define and discuss the WPH framework for business ethics, and within that framework propose a solution. Be sure to fully address the populations, purposes, and guidelines included within "W," "P," and "H."

65. Summarize the following ethical principles:

- (a). Ethical relativism
- (b). Situational ethics
- (c). Consequentialism
- (d). Deontology
- (e). Virtue ethics
- (f). Ethics of care

66. Milly's best friend and roommate, Sarah, is getting ready for a big date. Sarah had her hair and nails done, bought a new dress, and spent two hours getting ready. Just as Milly sees Sarah's date coming down the street, Sarah comes out and asks Milly how she looks. Unfortunately, the stylist did a terrible job, the nails are an odd shade of purple, and the new dress is extremely unflattering. Sarah has no time to change. Discuss what Milly would say and why under the following principles:

- (a). Deontology
- (b). Act utilitarianism
- (c). Rule utilitarianism
- (d). Virtue ethics

67. What does a reference to the "social responsibility of business" mean? Should businesses consider community expectations, and why or why not?

Chapter 02 Business Ethics Answer Key

True / False Questions

1. Ethical conversation is primarily about finding the one and only right thing to do.
(p. 16)

FALSE

Ethical conversation is less about finding the one and only right thing to do than it is about finding the better thing to do.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics

2. Business ethics is the application of ethics to the special problems and opportunities experienced by business people.
(p. 16)

TRUE

Ethics guides us when we are wondering what we should be doing in a particular situation whereas business ethics is the application of ethics to the special problems and opportunities experienced by business people.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

3. The social responsibility of business consists only of the expectations employees have of employers.
(p. 16)

FALSE

The social responsibility of business consists of the expectations that the community imposes on firms doing business inside its borders.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

4. Insurer American International Group (AIG) is well known in the insurance industry for its ethical and cautious investments protecting investors.
(p. 17-18)

FALSE

Because of issues including risky bets it made insuring mortgage-backed securities, the company collapsed and received the largest federal bailout in U.S. history.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

5. In some countries, businesses must pay bribes in order to receive legitimate supplies.
(p. 18)

TRUE

In some countries, businesses must pay bribes to receive legitimate supplies; and although the business person may be morally opposed to paying bribes, the supplies are necessary to stay in business.

AACSB: Diversity
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

6. In an ethical analysis using the WPH Framework referenced in the text, owners are the most important stakeholders and should receive the greatest consideration in decision making regardless of the type of problem addressed.
(p. 22)

FALSE

The WPH framework considers whom the decision would affect, purpose (values), and how to make ethical decisions.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

7. The definition of stakeholder is the same as the definition of shareholder.
(p. 23)

FALSE

The stakeholders of a firm are the many groups of people affected by the firm's decisions.

AACSB: Ethics
Accessibility: Keyboard Navigation

*Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics*

8. The community in which a firm operates would not be considered a stakeholder of the firm.
(p. 23)

FALSE

The general community where a firm operates is a stakeholder of the firm.

*AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics*

9. Situational ethics is the same thing as ethical relativism.
(p. 33)

FALSE

Unlike ethical relativism, situational ethics allows us to judge other people's actions.

*AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics*

10. Consequentialism provides a rigid set of rules to follow regardless of the situation.
(p. 33)

FALSE

In contrast to absolutism, consequentialism does not provide a rigid set of rules to follow regardless of the situation.

*AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics*

11. Utilitarianism is a form of consequentialism.
(p. 34)

TRUE

Utilitarianism is one form of consequentialism that business managers may find useful.

*AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium*

12. Ethics is not an issue in accounting because of the primarily objective data involved in that field.
(p. 21)

FALSE

As reflected in Exhibit 2-2, during the past several years, ethics violations have been uncovered in the accounting practices of a number of large companies.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

Multiple Choice Questions

13. Which of the following was the result in regard to the statute of limitations in the Case Opener in which the plaintiff claimed that the drug Accutane caused her to develop ulcerative colitis and irritable bowel syndrome?
(p. 16)

- A.** That because the plaintiff was not warned by her doctor of specific risks caused by the medication, the statute of limitations did not begin to run until she became aware of an advertisement discussing the risk.
- B. That because the plaintiff was warned by her doctor of specific risks caused by the medication, the statute of limitations began to run prior to the time she became aware of an advertisement discussing the risk; and the statute of limitations barred her claim.
- C. That the statute of limitations began to run on the plaintiff's claim when the risk of the drug was discovered by the manufacturer, not on the date on which the plaintiff became aware of the risk and that the statute of limitations, therefore, barred her claim.
- D. That in lawsuits involving this type of drug, there is no statute of limitations because each day the plaintiff suffers from pain results in the beginning of a new cause of action.
- E. That the defendant committed fraud preventing it from relying on the statute of limitations.

The court found that given that Kendall's dermatologist was unaware of, and therefore did not warn her of, the risk of her condition resulting from Accutane, a reasonable person in the plaintiff's situation would not have been aware of the potential for the medication to cause her illness. Therefore, given that the plaintiff was not made aware of the connection between her illness and the medication until the later lawyer's advertisement, her lawsuit was timely.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics

14. Which of the following presents a problem when considering the theory of ethics known as absolutism?
(p. 33)

- A. The questionable nature of the rules in most absolutist repositories seems overly flexible when applied to different situations.
- B. The unquestionable nature of the rules in most absolutist repositories seems overly inflexible when applied to different situations.**
- C. The lack of objectivity.
- D. The fact that most individuals associated with this theory have been proven to have acted to the detriment of their followers in one way or another.
- E. The allegation that an excessive number of followers actually follow consequentialism.

The unquestionable nature of the rules in most absolutist repositories seems overly inflexible when applied to different situations.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

15. Which of the following is the application of ethics to special problems and opportunities experienced by those in business?
(p. 16)

- A. Situational ethics
- B. Consequentialism
- C. Business ethics**
- D. Sarbanes-Oxley principles
- E. Business utilitarianism

Business ethics is the application of ethics to special problems and opportunities experienced by business people.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

16. Which of the following is the study and practice of decisions about what is good, or right?
(p. 16)

- A. Morals
- B. Ethics**
- C. Consequences
- D. Law
- E. Business

Ethics is the study and practice of decisions about what is good, or right.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

17. A local Chamber of Commerce plans a seminar on "the social responsibility of business in our community." What does that term reference?
(p. 16)

- A. The responsibility of business to make profit for shareholders.
- B. The responsibility of business to have annual meetings.
- C. The expectations that the community imposes on firms doing business inside its borders.**
- D. The expectations of employees regarding wage rates.
- E. The expectations of management in regard to adequate utility resources.

The social responsibility of business consists of the expectations that the community imposes on firms doing business inside its borders.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 3 Hard

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

18. Which of the following is the minimal standard essential for the development of business ethics?
(p. 18)

- A. Meeting the requirements of deontology.
- B. Meeting the requirement of the public disclosure test.
- C. Meeting the requirement of utilitarianism.
- D. Satisfying the company's board of directors.
- E. The legality of a decision.**

The legality of the decision in choosing a method of production, how to compete with competing firms, and the social responsibilities of the firm is the minimal standard that must be met for the firm to be an ethical business.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

19. Which of the following is true regarding business ethics?
(p. 20)

- A. Business ethics refers to standards of business conduct but does not result in a set of correct decisions.**
- B. Business ethics results in a set of correct decisions and does not simply refer to standards of business conduct.
- C. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of deontology is followed.
- D. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of rule utilitarianism is followed.
- E. Business ethics produces a list of correct business decisions that all ethical businesses will make so long as the theory of virtue ethics is followed.

The definition of business ethics refers to standards of business conduct and does not result in a set of correct decisions.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

20. Which of the following was the result in *U.S. v. Alfred Caronia*, the case in the text in which the defending pharmaceutical representative was charged with illegally promoting off-label use of a drug?
(p. 18-20)

- A. That the defendant had not indeed promoted off-label use of the drug at issue, and the case was dismissed.
- B. That although the defendant promoted off-label use of the drug at issue, the off-label use was later approved as a valid and appropriate use, and the case was dismissed.
- C. That the defendant's speech failed to meet the criteria for classification as commercial speech and that, therefore, the defendant had no constitutional argument in opposition to the charges against him.
- D. That although the defendant's speech met the criteria for classification as commercial speech, no constitutional protection has been historically extended to that type of speech; and the defendant, therefore, had no constitutional argument in opposition to the charges against him.
- E. That although the defendant's speech met the criteria for classification as commercial speech entitled to constitutional protection under some conditions, the government met the requirements for regulation of the particular speech at issue involving off-label usage.

Although the court in *U.S. v. Alfred Caronia* found that the defendant's statements met the criteria for classification as commercial speech entitled to protection under some circumstances, the defendant's speech was not constitutionally protected because of the reasons advanced by the government for the regulation at issue.

AACSB: Ethics

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-02 How are business law and business ethics related?

Topic: Business Law and Business Ethics

21. Which of the following is true regarding revelations involving Enron and WorldCom?
(p. 21)

- A. That their upholding of high ethical standards in regard to accounting practices supports the conclusion that the business world should be allowed to regulate itself.
- B. That WorldCom, a privately held company, had high ethical standards but that Enron, a publicly traded company, engaged in illegal accounting practices supporting the conclusion that privately held companies should be allowed to regulate themselves whereas publicly held companies need significant government regulation.
- C. That WorldCom, a privately held company, engaged in illegal accounting practices but that Enron, a publicly traded company, had high ethical standards supporting the conclusion that privately held companies need significant government regulation whereas publicly held companies should be allowed to regulate themselves.
- D. That although illegal accounting practices occurred, it is so difficult to find and regulate such practices that any regulation should be left to the free market.
- E.** That accounting issues with these companies illustrate that the business world cannot be allowed to regulate itself ethically and that government oversight is needed.

The revelations of Enron and WorldCom suggested quite blatantly that the business world could not be allowed to regulate itself ethically, and their downfall in part led to many federal regulations designed to promote truthfulness and ethical practices among business managers.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

22. Which of the following is asserted by the principle of rights?
(p. 35)

- A.** That whether a business decision is ethical depends on how the decision affects the rights of all involved.
- B. That whether a business decision is ethical depends on how the decision affects the rights of stockholders without consideration of other stakeholders.
- C. That whether a business decision is ethical depends on how the decision affects the rights of employees without consideration of other stakeholders.
- D. That whether a business decision is ethical depends on how the decision affects the overall economy.
- E. That whether a business decision is ethical depends on how the decision affects the rights of organized labor without consideration of other stakeholders.

The principle of rights asserts that whether a business decision is ethical depends on how the decision affects the rights of all involved, a principle that is foundational to Western culture.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

23. What is the system of "guanxi" used in China?
(p. 21)

- A.** It refers to a system of relationship building woven together by social ties.
- B. It refers to a system of strict ethical rules.
- C. It refers to a prohibition against criticism of government rules and regulations.
- D. It refers to a system by which business people attempt to avoid strict Chinese regulations.
- E. It refers to a system of smuggling.

"Guanxi" refers to a sort of relationship building and is an intricate system of interpersonal networks woven together by social ties.

AACSB: Diversity
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

24. What do the letters "WPH" mean in reference to the "WPH Framework for Business Ethics" discussed in the text?
(p. 22)

- A.** Who, Purpose, and How
- B. When, Plan, and How
- C. Why, Procedure, and Hope
- D. Where, Plan, and Hope
- E. Where, Procedure, and How

The WPH framework addresses whom a decision would affect, the purpose of the decision, and the guidelines on how to make ethical decisions.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

25. Which of the following is true under the WPH process of ethical decision making?
(p. 22)

- A. The interest of management is ranked higher than that of employees when decisions are made.
- B. The interest of owners is ranked higher than that of both employees and management when decisions are made.
- C. When decisions are made, the interest of the community as a whole is considered last.
- D. The interest of management is ranked higher than that of employees when decisions are made, but the interest of owners is ranked higher than the interest of any group.
- E.** There is not a framework under WPH for ranking one stakeholder above another.

The framework addresses whom a decision would affect, the purpose of the decision, and the guidelines on how to make ethical decisions. There is no reference to ranking stakeholders at a higher level.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

26. Which of the following are stakeholders of a business?
(p. 23)

- A. Shareholders but not employees
- B. Employees but not shareholders
- C. Customers but not employees or shareholders
- D. Management but not employees
- E.** Shareholders, employees, customers, and management

The stakeholders of a firm are the many groups of people affected by the firm's decisions.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

"Environmental Concerns." Connie, the president of a company that makes paper, has a new interest in the environment. She recently went to a seminar on environmental dangers and has decided to take steps to clean things up. She started at home and has now felt compelled to change things at work. Connie had to face the fact that her company has been cheating and is not in compliance with applicable environmental regulations due to dumping in a nearby river. Her company has never been cited because it employs a very large number of people in the community, including the mayor's wife and the chief-of-police's brother. On her mission to clean things up, Connie has decided to go even further than the law requires and install the very latest environmental protections. When she announced her plan, the chair of the company's board of directors, Brooke, had a meeting with Connie. Brooke told Connie to analyze the situation carefully because the cost of the additional equipment would mean no dividend to shareholders and no raise for employees. Furthermore, Brooke told Connie that installing all the new equipment would result in higher prices for the company's paper product and could bankrupt the company because of foreign competition. Brooke hinted that Connie could be fired if she persisted. Brooke suggested that Connie just be concerned with a minimal standard of ethics. Connie decides to go forward with her plan to clean things up under the theory that she wants to treat others in the same manner that she wants to be treated. Under Connie's theory, if she did not understand the importance of the environmental improvements, she would want them to be thrust upon her.

27. Which of the following is true regarding meeting the minimal standard of business ethics
(p. 18) suggested by Brooke?

- A.** Decisions must be legal.
- B. Decisions must meet the criteria of a follower of deontology.
- C. Decisions must meet the criteria of a follower of utilitarianism.
- D. Decisions must receive a majority vote of acceptance by employees.
- E. Decisions must be legal and decisions must also receive a majority vote of acceptance by employees.

The legality of the decision in choosing a method of production, how to compete with competing firms, and the social responsibilities of the firm is the minimal standard that must be met for the firm to be an ethical business.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-02 How are business law and business ethics related?
Topic: Business Law and Business Ethics

28. Which of the following would be a stakeholder in the above company?
(p. 23)

- A. The community only
- B. The shareholders only
- C. Future generations only
- D. The community and shareholders only
- E. The community, shareholders, and future generations**

The stakeholders of a firm are the many groups of people affected by the firm's decisions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

29. Connie's idea is best referred to as _____.
(p. 26)

- A. The Golden Rule**
- B. The Disclosure Principle
- C. The Help Peers Test
- D. The Sarbanes-Oxley Rule
- E. The Greenhouse Rule

The Golden Rule is referenced as the idea that we should interact with other people in a manner consistent with the way we would like them to interact with us.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

30. Positive abstractions that capture our sense of what is good or desirable are called _____.
(p. 24)

- A. Ethical ideas
- B. Values**
- C. Conscience demands
- D. Desirable principles
- E. Action goals

Positive abstractions that capture our sense of what is good or desirable are called values.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?

31. Which of the following are values in the WPH process of ethical decision making?
(p. 25)

A. Freedom only
B. Security only
C. Efficiency only
D. Freedom and security, but not efficiency
E. Freedom, security, and efficiency

Exhibit 2-5 "Primary Values and Business Ethics" outlines an efficient way to apply this second step in the WPH framework referencing the values of freedom, security, justice, and efficiency.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

32. The idea that we should interact with other people in a manner consistent with the manner in which we would like them to interact with us is called the _____.
(p. 26)

A. Equalization Rule
B. Ethical Realization Rule
C. Silver Rule
D. Golden Rule
E. Ten Commandments Rule

The idea that we should interact with other people in a manner consistent with the manner in which we would like them to interact with us is called the Golden Rule.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

33. What is the name of the law signed by President Bush in the wake of several corporate accounting scandals?
(p. 28)

- A.** The Sarbanes-Oxley Act
- B. The Public Accounting Act
- C. The Certified Public Accounting Act
- D. The Whaley-Mallicoat Act
- E. The Corporate Scandal Act

The Corporate and Criminal Fraud Accountability Act, also known as the Sarbanes-Oxley Act, was signed by President Bush in 2002 in the wake of several corporate accounting scandals.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

34. Which of the following is true regarding activities of the Public Company Accounting Oversight Board?
(p. 28)

- A. The Board ensures that auditors and public accounting firms compile accurate and truthful financial reports for the companies they audit, but it has no responsibility in regard to whistle-blowing protection.
- B. The Board requires that companies devise a system that allows employees to report suspicions of unethical behavior, but it does not address financial reports prepared by auditors and public accounting firms.
- C. The Board requires that the universalization test be used as the primary ethical guideline and also mandates protection for whistle-blowers who report suspicious activity involving financial reports.
- D.** The Board ensure that auditors and public accounting firms compile accurate and truthful financial reports for the companies they audit and also requires that companies devise a system that allows employees to report suspicions of unethical behavior.
- E. The Public Company Accounting Oversight Board was abolished during the Obama administration and no longer exists.

As set forth in Exhibit 2-7, the Public Company Accounting Oversight Board is responsible for ensuring that auditors and public accounting firms compile accurate and truthful financial reports for the companies they audit. The act also requires that companies devise a system that allows employees to report suspicions of unethical behavior within the company. The act also protects these whistle-blowers from being fired or from retaliation by their employer for reporting a possible problem within the company.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

35. According to the text, which of the following may be a part of the "how" in the WPH process of decision making?
(p. 22)

- A. Public disclosure, universalization, security, and the Golden Rule
- B. Values, public disclosure, and security
- C. Profit maximization, security, and public disclosure
- D. Whistle-blowing, the Golden Rule, values, and public disclosure
- E. Public disclosure, universalization, and the Golden Rule**

Exhibit 2-3, The WPH Process of Ethical Decision Making, reflects that "public disclosure," "universalization," and the "Golden Rule" are all part of the *How* process in the WPH Framework.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

36. The "public disclosure" test for ethical behavior is sometimes referred to as the _____ test.
(p. 27)

- A. Television**
- B. Powell
- C. Self-conscious
- D. Golden
- E. Primary

The "public disclosure" test for ethical behavior is sometimes referred to as the television test because it requires us to imagine that our actions are being broadcast on national television.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

37. The _____ for ethical behavior seeks consideration of what the world would be like if a decision is copied by everyone else.
(p. 27)

- A. Golden rule
- B. Universalization test**
- C. Public disclosure
- D. Relevant disclosure
- E. World rule

The universalization test for ethical behavior seeks consideration of what the world would be like if a decision is copied by everyone else.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

38. Which of the following is true regarding steps taken by news corporations to protect confidential records?
(p. 28)

- A. News corporations are putting numerous security barriers and encryptions around their records so that nobody can gain access to them.**
- B. News corporations are attempting to protect information written by their own employees, but efforts are not made to protect confidential sources because constitutional protection does not extend to confidential sources.
- C. News corporations are not bothering with security barriers to the extent as in previous decades because government regulation requires that information be turned over, and there is no point in taking drastic measures to protect such information.
- D. New regulations make significant privacy barriers illegal in regard to news corporations, so many barriers have been or are being removed.
- E. Because of the respect given to confidential records by the U.S. government and its enforcement agencies, news corporations see little need to enhance protection of confidential records.

Now news corporations are putting numerous security barriers and encryptions around their records so that nobody can gain access to them.

AACSB: Technology
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

"Accounting Advice." Brad, a newly hired Certified Public Accountant, who barely passed his boards, was asked by a business client, a chief executive officer, about the effect of the Sarbanes-Oxley Act on an accounting issue. Brad assured the client that the client should not be concerned about the Act because it is very vague, unspecific, and difficult to understand. Brad told the CEO that in any event, the CEO could not be held personally responsible regardless of what happened because only company business was involved. Brad also told the CEO that there is no oversight involved with the act. Later that same day, a coworker of Brad discovered that the CEO had been involved in misstating some financial reports and had also destroyed financial documents to cover up fraud. An employee at the company, Laura, had informed the coworker as well as the SEC. When the issue was mentioned to the CEO, he immediately fired Laura.

39. Which of the following is true regarding Brad's statement that the CEO could not be held liable for violations of the act?
(p. 28)

- A. Brad is correct. Under no circumstances can a CEO be held personally responsible for violations under the act. Any fines would be imposed upon the business entity.
- B. Brad is incorrect. The act provides for harsh penalties, and a CEO who knows that the company's financial reports are incorrect but claims that they are truthful, can be heavily fined. There are no penalties, however, for destruction of financial documents.
- C. Brad is incorrect. The act provides for harsh penalties, and a CEO who destroys or changes financial documents to mislead can be heavily fined. There are no penalties, however, for misstatements of a company's financial reports because the company is solely responsible for its statements.
- D. Brad is incorrect, but any fine against a CEO under the act cannot exceed a nominal amount of \$1,000.
- E.** Brad is incorrect. The act provides for harsh penalties, and a CEO who knows that the company's financial reports are incorrect but claims that they are truthful, can be heavily fined. Additionally, a CEO who destroys or changes financial documents to mislead can be heavily fined.

As set forth in Exhibit 2-7, if the CEO or CFO knows that the company's financial reports are incorrect but claims they are truthful, or if he or she destroys or changes financial documents, the imposed fine can run into millions of dollars.

*AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard*

*Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics*

40. Which of the following is true regarding the Act and Laura's firing?
(p. 28)

- A. The act does not provide protection for whistle-blowers such as Laura.
- B. The act provides protection for whistle-blowers only if it can be shown that a significant amount of money, in excess of \$5,000, was involved in the incident involved.
- C. The act provides protection for whistle-blowers only if it can be shown that a significant amount of money, in excess of \$10,000, was involved in the incident involved.
- D. The act provides protection for whistle-blowers who work for an accounting firm, but not for any other employees.
- E.** Laura's whistle-blowing would be protected under the act, and her firing was illegal.

As set forth in Exhibit 2-7, the Sarbanes-Oxley Act protects whistle-blowers from being fired or from retaliation by their employer for reporting a possible problem within the company.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

41. Contrary to Brad's statement, does the Sarbanes-Oxley Act create a board of oversight; and, if so, what is its name?
(p. 28)

- A. Brad is correct. No oversight board was created.
- B.** A board called the Public Company Accounting Oversight Board was created by the Act.
- C. A board called the Public Accountability Commission was created by the Act.
- D. A board called the CPA Oversight Commission was created by the Act.
- E. A board called the Federal Accountability Commission was created by the Act.

As set forth in Exhibit 2-7, the Sarbanes-Oxley Act created the Public Company Accounting Oversight Board.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics

42. The ethical theory that requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma is called _____.
(p. 33)

- A. Situational ethics
- B. Ethical relativism
- C. Absolutism
- D. Consequentialism
- E. Relativity ethics

Situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

43. How is absolutism different from ethical relativism and situational ethics?
(p. 33)

- A. It applies utilitarianism.
- B. It holds that a cost-benefit analysis should be applied.
- C. It holds that whether an action is moral does not depend on the perspective of the person facing the ethical dilemma.
- D. It applies virtue ethics and concentrates on the accepted values of the person at issue as well as those of the community involved.
- E. It applies corporate ethics principles.

Unlike ethical relativism and situational ethics, absolutism holds that whether an action is moral does not depend on the perspective of the person facing the ethical dilemma.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

44. Which of the following is true regarding the relationship between ethical relativism and situational ethics?
(p. 33)

- A. Like ethical relativism, situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma; but unlike ethical relativism, situational ethics allows us to judge other people's actions.
- B. Like ethical relativism, situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma and also like ethical relativism, situational ethics allows us to judge the actions of others.
- C. While the two theories are similar, ethical relativism upholds the existence of objective moral standards whereas situational ethics refuses to recognize the existence of objective moral standards.
- D. Ethical relativism and situational ethics are the same theory.
- E. There is no relationship between ethical relativism and situational ethics because the theories are fundamentally opposed to each other.

Like ethical relativism, situational ethics requires that we evaluate the morality of an action by imagining ourselves in the position of the person facing the ethical dilemma; but unlike ethical relativism, situational ethics allows us to judge other people's actions.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

45. Which of the following requires that we see murder as a moral action as long as the murderer believes that the action is best for himself or herself?
(p. 34)

- A. Absolutism
- B. Deontology
- C. Categorical imperative
- D. Uncertainty of thought
- E. Ethical relativism

Ethical relativism denies the existence of objective moral standards. For example, ethical relativism requires that we see murder as a moral action as long as the murderer believes that the action is best for himself or herself.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

46. Which of the following is also referred to as ethical fundamentalism?
(p. 33)

- A. Ethical relativism
- B. Absolutism**
- C. Social responsibility
- D. Ethical absolutism
- E. Absolute theory

Absolutism, or ethical fundamentalism, requires that individuals defer to a set of rules to guide them in the ethical decision-making process.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

"Fast Food Dilemma." Richard, who just started at his new job as an assistant manager at a fast-food restaurant, wants to make a good impression. He thinks that things are going great. On only the second day on the job, however, he sees his boss Jill, the manager, slink out of the restaurant with a big box of hamburger that she puts in her car. Jill then speeds away. Richard is fairly certain that Jill did not pay for the hamburger. Richard asks advice of his best friend, Bruce; his girlfriend, Sally; his sister, Jenny; and his dad, Frank. Bruce says that there are no real objective standards and that Richard should just decide what is best for him. Sally says that Richard should focus on the consequences and focus on the greatest benefit to all involved. She believes that it will do no real harm for Richard to keep his mouth shut because the fast-food restaurant is making plenty of money and probably does not pay Jill enough anyway. Plus, getting in trouble with Jill could cause problems at work, and if Richard loses his job, Richard and Sally might have to put off their marriage. Jenny says that on balance the rule producing the greatest good would be to tell Jill because stealing does not generally produce the greatest satisfaction. Richard's dad says that as a matter of principle Richard should tell Jill because stealing is simply wrong.

47. Which of the following theories most accurately fits the advice given by Bruce?
(p. 33)

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism**
- E. Virtue ethics

According to ethical relativism, individuals must evaluate actions on the basis of what they feel is best for them.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

48. Which of the following theories most accurately fits the advice given by Sally?
(p. 34)

- A. Deontology
- B. Act utilitarianism**
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

Act utilitarianism advises examining all the potential actions in each situation and choosing the action that yields the greatest amount of pleasure over pain for all involved.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

49. Which of the following theories most accurately fits the advice given by Jenny?
(p. 34)

- A. Deontology
- B. Act utilitarianism
- C. Rule utilitarianism**
- D. Ethical relativism
- E. Virtue ethics

Rule utilitarianism holds that general rules that *on balance* produce the greatest amount of pleasure for all involved should be established and followed in each situation.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

50. Which of the following theories most accurately fits the advice given by Frank?
(p. 34)

- A. Deontology**
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Ethical relativism
- E. Virtue ethics

Deontology consists of acting on the basis of the recognition that certain actions are right or wrong, regardless of their consequences.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply

51. What is the basis of consequentialism?
(p. 33-34)

- A. Deontology
- B. Categorical imperatives
- C. Inquiry into the consequences**
- D. Disregard of consequences
- E. Act utilitarianism

Consequentialism is a general approach to ethical dilemmas that requires that we inquire about the consequences to relevant people of our making a particular decision.

52. Kantian ethics is involved with which of the following ethical theories?
(p. 34)

- A. Deontology**
- B. Act utilitarianism
- C. Rule utilitarianism
- D. Absolutism
- E. Situational ethics

When you see references to Kantian ethics, the analysis that follows the reference will be a discussion of the most famous of the deontological approaches to business ethics.

53. An ethical theory that urges managers to take those actions that provide the greatest pleasure after having subtracted the pain or harm associated with the action in question is called _____.

- A. Deontology
- B. Utilitarianism**
- C. Kantian ethics
- D. Absolutism
- E. Ethical relativism

Like many consequentialist theories of ethics, utilitarianism urges managers to take those actions that provide the greatest pleasure after having subtracted the pain or harm associated with the action in question.

AACSB: Ethics

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics

Topic: Theories of Business Ethics

54. A business manager who deceives everyone because the manager believes that deception maximizes pleasure over pain in a given situation is acting consistently with which ethical theory?

- A. Act deontology
- B. Ethical relativism
- C. Act utilitarianism**
- D. Ethical fundamentalism
- E. Rule utilitarianism

According to act utilitarianism, a business manager who deceives an employee may be acting morally if the act of deception maximizes pleasure over pain for everyone involved.

AACSB: Ethics

Accessibility: Keyboard Navigation

Blooms: Evaluate

Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics

Topic: Theories of Business Ethics

55. A business manager may consider it wrong to terminate a person whose spouse has terminal cancer because a firm has an absolute obligation to support its employees when they are vulnerable, period. The business manager is acting consistently with which ethical theory?

(p. 34)

- A.** Deontology
- B. Ethical relativism
- C. Act utilitarianism
- D. Ethical fundamentalism
- E. Rule utilitarianism

Deontology consists of acting on the basis of the recognition that certain actions are right or wrong, regardless of their consequences.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

56. A person who believes that they should not cheat on a drug test because if everyone did so, the drug test would be meaningless is applying a[n] _____.

(p. 34-35)

- A. Ethics of care
- B. Virtual analysis
- C. Cost-benefit analysis
- D. Fundamentalist approach
- E.** Categorical imperative

According to the categorical imperative, an action is moral only if it would be consistent for everyone in society to act in the same way.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Evaluate
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

57. Which of the following helps explain why the principle of deontology may be difficult to apply?
(p. 35)

- A.** People disagree about what duties we owe to one another and which duties are more important.
- B. People disagree about whether consequences are positive or negative.
- C. People disagree about the ethics of care.
- D. People disagree about what duties we owe to one another and also whether consequences are positive or negative.
- E. People disagree about what duties we owe to one another, whether consequences are positive or negative, and about the ethics of care.

Deontology is difficult to apply because people disagree about what duties we owe to one another and which duties are more important than others when they conflict.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

58. The ethical system in which the development of virtues, or positive character traits such as courage, justice, and truthfulness, is the basis for morality is called _____.
(p. 35)

- A. Absolutism decision
- B. Virtual analysis
- C.** Virtue ethics
- D. Fundamentalist approach
- E. Categorical imperative

Virtue ethics is an ethical system in which the development of virtues, or positive character traits such as courage, justice, and truthfulness, is the basis for morality.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

59. Which of the following consists of acting on the basis of the recognition that certain actions are right or wrong, regardless of their consequences?
(p. 34)

- A. Act utilitarianism
- B. Rule utilitarianism
- C. Situational ethics
- D. Virtue ethics
- E. Deontology**

Deontology consists of acting on the basis of the recognition that certain actions are right or wrong, regardless of their consequences.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

60. What is a difficulty with the application of virtue ethics?
(p. 35)

- A. The applicable categorical imperatives.
- B. The lack of agreement about the meaning of "the good life."**
- C. The applicable principle of rights.
- D. The ethics of care analysis.
- E. The lack of agreement regarding which rules on balance produce the greatest amount of pleasure for the greatest number of people.

A difficulty with the application of virtue ethics is the lack of agreement about the meaning of "the good life."

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

61. The _____ adherents believe that when one individual, the caregiver, meets the needs of one other person, the cared-for party, the caregiver is helping to meet the needs of all the individuals who fall within the cared-for party's web of care.

(p. 36)

- A. Deontology
- B. Utilitarianism
- C. Absolutism
- D. Virtue ethics
- E. Ethics of care**

Ethics-of-care theorists argue that when one individual, the caregiver, meets the needs of one other person, the cared-for party, the caregiver is actually helping to meet the needs of all the individuals who fall within the cared-for party's web of care.

AACSB: Ethics

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics

Topic: Theories of Business Ethics

62. The _____ holds that the right course of action is the option most consistent with the building and maintaining of human relationships.

(p. 36)

- A. Ethics of care**
- B. Principle of virtue ethics
- C. Deontology
- D. Act utilitarianism
- E. Rule utilitarianism

The ethics of care holds that the right course of action is the option most consistent with the building and maintaining of human relationships.

AACSB: Ethics

Accessibility: Keyboard Navigation

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: Appendix 2A Theories of Business Ethics

Topic: Theories of Business Ethics

Essay Questions

63. Assume you are hired as the president of a new company. Write a code of ethics for the firm.
(p. 36)

Student responses may vary. Johnson and Johnson's credo may serve as a guide.

*AACSB: Ethics
Blooms: Create
Difficulty: 3 Hard*

*Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Business Ethics and Social Responsibility*

64. Sally is the president of AAA Components, a company that makes small parts for the automotive industry. Customers of AAA components are primarily auto manufacturers. Sally's cousin, Frank, works at the company as a sales representative. A promotion to the sales manager position is open. Frank has applied and so has Susan, another sales representative. While both Frank and Susan are good employees, they are skilled in different areas. Susan is excellent with technology and with placing orders. She does an excellent job in following through with order problems. Frank, on the other hand, is better with customer relations, and customers seem to like him better. Sally would like to promote Frank but she has two concerns. Her first concern is that she does not want it to be perceived that she is being unfair because Frank is family. Her second concern is that she has a suspicion that some customers are somewhat prejudiced against Susan because she is female. Most customers with whom the sales representatives deal are male, and Sally suspects that they may give Frank more consideration than Sally. Define and discuss the WPH framework for business ethics, and within that framework propose a solution. Be sure to fully address the populations, purposes, and guidelines included within "W," "P," and "H."

Students should reference the WPH process of decision making by identifying stakeholders, values, and guidelines. Students should also propose a solution. Solutions may vary.

*AACSB: Ethics
Blooms: Create
Difficulty: 3 Hard*

*Learning Objective: 02-03 How can we use the WPH framework for ethical business decisions?
Topic: The WPH Framework for Business Ethics*

65. Summarize the following ethical principles:

(p. 33-36)

- (a). Ethical relativism
- (b). Situational ethics
- (c). Consequentialism
- (d). Deontology
- (e). Virtue ethics
- (f). Ethics of care

- (a). Ethical relativism - Asserts that morality is relative.
- (b). Situational ethics - Requires that when we evaluate whether an action is ethical, we imagine ourselves in the position of the person facing an ethical dilemma.
- (c). Consequentialism - Considers the consequences (i.e., harms and benefits) of making a particular decision.
- (d). Deontology - Recognizes certain actions as right or wrong regardless of the consequences.
- (e). Virtue ethics - Encourages individuals to develop virtues (e.g. courage and truthfulness) that guide behavior.
- (f). Ethics of care - Holds that ethical behavior is determined by actions that care for and maintain human relationships.

AACSB: Ethics
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

66. Milly's best friend and roommate, Sarah, is getting ready for a big date. Sarah had her hair and nails done, bought a new dress, and spent two hours getting ready. Just as Milly sees Sarah's date coming down the street, Sarah comes out and asks Milly how she looks. Unfortunately, the stylist did a terrible job, the nails are an odd shade of purple, and the new dress is extremely unflattering. Sarah has no time to change. Discuss what Milly would say and why under the following principles:

(p. 34-35)

- (a). Deontology
- (b). Act utilitarianism
- (c). Rule utilitarianism
- (d). Virtue ethics

Student answers will likely vary based upon the application of the facts to the ethical principles involved. Following are suggestions:

- (a). Under the principle of deontology, which consists of acting on the basis of the recognition that certain actions are right or wrong regardless of consequences, students will likely say that Sarah should be told the truth.
- (b). Act utilitarianism says that the action that yields the greatest amount of pleasure over pain for all involved should be chosen. Under this principle, Sarah would likely be told that she looks fine.
- (c). Rule utilitarianism holds that general rules that on balance produce the greatest amount of pleasure for all involved should be followed in each situation. Students may say that deception does not generally produce the greatest satisfaction.
- (d). Virtue ethics is an ethical system in which the development of virtues or positive character traits is the basis for morality. Students may say that it is virtuous to tell the truth, or some may say that it is more virtuous to spare Sarah's feelings.

AACSB: Ethics
Blooms: Analyze
Difficulty: 3 Hard

Learning Objective: Appendix 2A Theories of Business Ethics
Topic: Theories of Business Ethics

67. What does a reference to the "social responsibility of business" mean? Should businesses consider community expectations, and why or why not?

(p. 16-17)

The social responsibility of business consists of the expectations that the community imposes on firms doing business inside its borders. These expectations must be honored to a certain extent, even when a firm wishes to ignore them, because firms are always subject to the implicit threat that legislation will impose social obligations on them. So, if the community expects businesses to obey certain standards of fairness even when the standards interfere with profit maximization, firms that choose to ignore that expectation do so at their peril.

AACSB: Ethics
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 What are business ethics and the social responsibility of business?
Topic: Business Ethics and Social Responsibility

