

Chapter 2

Ethics and Business Decision Making

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

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

TRUE/FALSE QUESTIONS

1. Ethics is the branch of philosophy that focuses on what constitutes right and wrong behavior.

ANSWER: T PAGE: 32 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

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

ANSWER: T PAGE: 32 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: T PAGE: 32 TYPE: +

NAT: AACSB Ethics

AICPA Critical Thinking

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

ANSWER: T PAGE: 32 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking
5. Business ethics focuses on ethical behavior in the business world.

ANSWER: T PAGE: 32 TYPE: N
NAT: AACSB Ethics AICPA Risk Analysis
6. Business ethics applies only to the owners, operators, and employees of corporations.

ANSWER: F PAGE: 32 TYPE: +
NAT: AACSB Ethics AICPA Risk Analysis
7. The minimal acceptable standard for ethical behavior is compliance with the law.

ANSWER: T PAGE: 32 TYPE: =
NAT: AACSB Analytic AICPA Critical Thinking
8. An action may be legal but not ethical.

ANSWER: T PAGE: 32 TYPE: =
NAT: AACSB Analytic AICPA Critical Thinking
9. An action may be legal and ethical.

ANSWER: T PAGE: 32 TYPE: =
NAT: AACSB Analytic AICPA Critical Thinking
10. Simply obeying the law does not fulfill all ethical obligations.

ANSWER: T PAGE: 32 TYPE: +
NAT: AACSB Ethics AICPA Critical Thinking
11. Business ethics is consistent only with short-run profit maximization.

ANSWER: F PAGE: 33 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

12. The most common reason that ethical problems occur in business is an overemphasis on long-run profit maximization.

ANSWER: F PAGE: 33 TYPE: N
NAT: AACSB Analytic AICPA Critical Thinking

13. The legality of an action is always clear.

ANSWER: F PAGE: 34 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: T PAGE: 34 TYPE: N
NAT: AACSB Analytic AICPA Critical Thinking

15. Managers must apply different standards to themselves than they apply to their employees.

ANSWER: F PAGE: 36 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

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

ANSWER: T PAGE: 36 TYPE: N
NAT: AACSB Ethics AICPA Risk Analysis

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

ANSWER: T PAGE: 36 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

18. Setting realistic workplace goals can reduce the probability that employees will act unethically.

ANSWER: T PAGE: 36 TYPE: =
NAT: AACSB Ethics AICPA Risk Analysis

19. Corporate ethical policies must be clearly communicated to be effective.

ANSWER: T PAGE: 38 TYPE: =
NAT: AACSB Ethics AICPA Risk Analysis

20. Ethical standards based on religious teachings tend to be absolute.

ANSWER: T PAGE: 41 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

21. Ethical reasoning is the process through which an individual rationalizes whatever action he or she chooses to take.

ANSWER: F PAGE: 41 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

22. Under the principle of rights theory, one person's set of values is as "right" as another's.

ANSWER: F PAGE: 42 TYPE: =
NAT: AACSB Ethics AICPA Critical Thinking

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

ANSWER: T PAGE: 42 TYPE: =
NAT: AACSB Analytic AICPA Risk Analysis

24. According to utilitarianism, it does not matter how many people suffer a negative effect from an act.

ANSWER: F PAGE: 42 TYPE: +
NAT: AACSB Ethics AICPA Critical Thinking

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

ANSWER: T PAGE: 42 TYPE: +
NAT: AACSB Ethics AICPA Critical Thinking

26. If an action is ethical from an outcome-based perspective, it is always ethical from a duty-based perspective.

ANSWER: F PAGE: 42 TYPE: =

NAT: AACSB Ethics

AICPA Critical Thinking

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

ANSWER: T PAGE: 43 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

28. A business firm's profits may suffer if the firm is not a "good corporate citizen."

ANSWER: T PAGE: 43 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

29. To be ethical is to "do the right thing" but it does not otherwise "pay."

ANSWER: F PAGE: 43 TYPE: N
NAT: AACSB Ethics AICPA Critical Thinking

30. Businesspersons who would choose to act unethically may be deterred from doing so because of public opinion.

ANSWER: T PAGE: 44 TYPE: =
NAT: AACSB Ethics AICPA Critical Thinking

31. A business organization and its actions cannot be based on trust.

ANSWER: F PAGE: 44 TYPE: N
NAT: AACSB Analytic AICPA Risk Analysis

32. One guideline to evaluating the ethics of a particular action is to "let your conscience be your guide."

ANSWER: T PAGE: 44 TYPE: N
NAT: AACSB Analytic AICPA Risk Analysis

33. The role played by women may present some difficult ethical problems for firms doing business internationally.

ANSWER: T PAGE: 46 TYPE: =
NAT: AACSB Diversity AICPA Critical Thinking

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

ANSWER: T PAGE: 46 TYPE: =
NAT: AACSB Analytic AICPA Critical Thinking

35. Some U.S. bribery laws are directed toward accountants.

ANSWER: T PAGE: 47 TYPE: =
NAT: AACSB Analytic AICPA Critical Thinking

MULTIPLE-CHOICE QUESTIONS

1. John is sales manager for Kleen 'N Brite Products, Inc. Compared to John's personal activities, his business activities most likely involve
- a. more complex ethical issues.
 - b. no ethical issues.
 - c. simpler ethical issues.
 - d. the same ethical issues.

ANSWER: A PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

2. In studying the legal environment of business, Professor Dooley's students also review ethics in a business context. Ethics includes the study of what constitutes
- a. fair or just behavior.
 - b. financially rewarding behavior.
 - c. legal behavior.
 - d. religious behavior.

ANSWER: A PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

3. Mariah works in the public relations department of New Trends Sales Company. Her job includes portraying New Trends's activities in their best light. In this context, ethics consist of
- a. a different set of principles from those that apply to other activities.
 - b. the same moral principles that apply to non-business activities.
 - c. those principles that produce the most favorable financial outcome.
 - d. whatever saves New Trends's "face."

ANSWER: B PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

4. Lia works for Media Marketing Company. Her job includes putting “spin” on the firm’s successes and failures. In this context, ethics consist of
- “bad” versus “good” publicity.
 - questions of rightness and wrongness.
 - the firm’s quarterly revenue.
 - whatever is legal.

ANSWER: B PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

5. Any decision by the management of Fast-Food Franchise Corporation may significantly affect its
- operators only.
 - operators, owners, suppliers, the community, or society as a whole.
 - owners only.
 - suppliers, the community, or society as a whole only.

ANSWER: B PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Risk Analysis

6. Bess runs Creditors Asset Recovery. She recruits clients by misrepresenting the facts and pretending to be licensed in various occupations in Michigan. Bess’s conduct most likely warrants
- an ethical admonishment but no other sanctions.
 - an injunction plus other sanctions.
 - no sanctions but no praise.
 - praise for her aggression in recovering the assets of “deadbeat” debtors.

ANSWER: B PAGE: 32 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking

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

- a. a legal duty beyond those duties mandated by ethics.
- b. an ethical duty beyond those duties mandated by law.
- c. any duty beyond those mandated by both ethics and the law.
- d. any duty when it is uncertain whether a legal duty exists.

ANSWER: B PAGE: 32 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

8. DeLouse Plastics Corporation pays its executives an excessive amount relative to other employees and to what executives at competitive companies are paid. This is most likely to be challenged as
- a. illegal and unethical.
 - b. illegal only.
 - c. neither illegal nor unethical.
 - d. unethical only.

ANSWER: D PAGE: 32 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking

9. Housemate, Inc., makes and sells a variety of household products. With a fair amount of certainty, Housemate's decision makers can predict whether a given business action would be legal in
- a. all situations.
 - b. many situations.
 - c. no situations.
 - d. practically no situations.

ANSWER: B PAGE: 34 TYPE: =
NAT: AACSB Reflective AICPA Legal

10. Sharon, the human resources director for Tempo Corporation, attempts to comply with the law in dealing with applicants and employees. One of the challenges Sharon faces is that the legality of an action is
- a. always clear.
 - b. never clear.
 - c. sometimes clear.
 - d. usually clear.

ANSWER: C PAGE: 34 TYPE: =
NAT: AACSB Reflective AICPA Legal

11. Kennedy Capital Corporation provides other firms with funds to expand operations. If Kenney strictly complies with existing laws, the firm will
- fulfill all business ethics obligations.
 - fulfill no business ethics obligations.
 - fulfill some business ethics obligations.
 - not need to fulfill any business ethics obligations.

ANSWER: C PAGE: 34 TYPE: =
 NAT: AACSB Reflective AICPA Critical Thinking

12. Eden, the chief executive officer of Flo-Thru Piping Corporation, wants to ensure that Flo-Thru's activities are legal and ethical. The best course for Eden and Flo-Thru is to act in
- good faith.
 - ignorance of the law.
 - regard for the firm's shareholders only.
 - their own self interest.

ANSWER: A PAGE: 34 TYPE: =
 NAT: AACSB Reflective AICPA Decision Modeling

13. Flexo Trucking Company transports hazardous waste. Garn is a Flexo driver, whom the company knows drives longer hours than federal regulations permit. One night, Garn exceeds the limit and has an accident. Spilled chemicals contaminate Hill City's water source, forcing the residents to move away. Flexo acted unethically because
- Flexo showed reckless disregard for Hill City's residents and others.
 - Garn exceeded the federal time limit.
 - harm was caused by an unfortunate accident.
 - Hill City should have better protected its water source.

ANSWER: A PAGE: 36 TYPE: +
 NAT: AACSB Reflective AICPA Critical Thinking

14. In business deals, Felipe, the chief executive officer of Glazed Donuts, Inc., follows duty-based ethical standards. These are most likely derived from
- a. a corporate ethics code.
 - b. a cost-benefit analysis.
 - c. philosophical reasoning.
 - d. the law.

ANSWER: C PAGE: 41 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking

15. Tilly, the chief financial officer for USA Products Corporation, attempts to apply Christian precepts in making ethical decisions and in doing business. In applying duty-based ethical standards that are derived from a religious source, Tilly would consider the motive behind an act to be
- a. irrelevant.
 - b. the least important consideration.
 - c. the most important consideration.
 - d. the only consideration.

ANSWER: A PAGE: 41 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

16. Global Distribution Corporation suggests that its employees apply the “categorical imperative” to ethical issues that arise at work. This requires that the employees
- a. categorize the issues according to legality, morality, and profitability.
 - b. consider only the benefits that would accrue to them personally.
 - c. look only at the result, regardless of the means to attain it.
 - d. weigh the consequences that would follow if everyone acted the same.

ANSWER: D PAGE: 41 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

17. Lyle, vice-president of sales for Mi-T Electric, Inc., adheres to Judeo-Christian religious ethical standards. With respect to their application, these standards are

- a. absolute.
- b. analytical.
- c. discretionary.
- d. utilitarian.

ANSWER: A PAGE: 41 TYPE: N
 NAT: AACSB Reflective AICPA Critical Thinking

18. Dion, an accountant for Entertainment Sports, Inc., attempts to apply a duty-based approach to ethical reasoning in conflicts that occur on the job. This approach is based on the idea that a person must

- a. achieve the greatest good for the most people.
- b. avoid unethical behavior regardless of the consequences.
- c. conform to society's ethical standards.
- d. place his or her employer's interest first.

ANSWER: B PAGE: 41 TYPE: =
 NAT: AACSB Reflective AICPA Critical Thinking

19. In making business decisions, Glenda, personnel manager for HVAC Maintenance, Inc., applies his belief that all persons have fundamental rights. This is

- a. a religious rule.
- b. the categorical imperative.
- c. the principle of rights.
- d. utilitarianism.

ANSWER: C PAGE: 42 TYPE: =
 NAT: AACSB Reflective AICPA Critical Thinking

20. Ryan, the owner of SuperMart Stores, Inc., adheres to the “principle of rights” theory. Under this theory, a key factor in determining whether a business decision is ethical is how that decision affects
- a. the right determination under a cost-benefit analysis.
 - b. the rights of others.
 - c. the “right” thing to do.
 - d. the right to make a profit.

ANSWER: B PAGE: 42 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

21. Made4U Goods, Inc., asks its employees, many of whom are members of the National Machinists Union, to apply the utilitarian theory of ethics. This theory does not require
- a. a choice among alternatives to produce the maximum societal utility.
 - b. a determination of whom an action will affect.
 - c. an assessment of the effects of alternatives on those affected.
 - d. the acquiring of the means of production by workers.

ANSWER: D PAGE: 42 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking

22. Solid Tool Company’s decision makers view a particular risk in the use of Solid’s product as open and obvious. Continuing to market the product without telling consumers of the risk could be justified from a perspective of
- a. duty-based ethics.
 - b. Kantian ethics.
 - c. rights-based ethics.
 - d. utilitarian ethics.

ANSWER: D PAGE: 42 TYPE: N
NAT: AACSB Reflective AICPA Risk Analysis

23. Halley, a lawyer on the staff of International Group, applies the utilitarian theory of ethics in business contexts. Utilitarianism focuses on
- a. moral values.
 - b. religious beliefs.
 - c. the consequences of an action.
 - d. the nature of an action.

ANSWER: C PAGE: 42 TYPE: =
NAT: AACSB Ethics AICPA Critical Thinking

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

ANSWER: D PAGE: 42 TYPE: +
NAT: AACSB Reflective AICPA Critical Thinking

25. In making decisions for United Merchandising Company, Vance uses a cost-benefit analysis. This is part of
- a. duty-based ethics.
 - b. Kantian ethics.
 - c. the principle of rights.
 - d. utilitarianism.

ANSWER: D PAGE: 42 TYPE: =
NAT: AACSB Ethics AICPA Critical Thinking

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

d. all of the choices.

ANSWER: D

PAGE: 42

TYPE: +

NAT: AACSB Reflective

AICPA Critical Thinking

27. Chuckie, president of DrinkUp Fresh Beverages, Inc., does not apply utilitarianism to business ethical issues. One problem with utilitarianism is that it
- a. gives business profits priority over production costs.
 - b. ignores the practical costs of a given set of circumstances.
 - c. requires complex cost-benefit analyses of simple situations.
 - d. tends to justify human costs that many find unacceptable.

ANSWER: D PAGE: 42 TYPE: +
NAT: AACSB Reflective AICPA Critical Thinking

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

ANSWER: C PAGE: 43 TYPE: =
NAT: AACSB Reflective AICPA Risk Analysis

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

ANSWER: A PAGE: 43 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

30. Superior Energy Corporation engages in ethical behavior solely for the purpose of getting good publicity and thereby increasing profits. Superior is
- a. acting unethically in its pursuit of publicity.
 - b. acting unethically in its pursuit of profits.
 - c. acting unethically in its setting of priorities.
 - d. not acting unethically.

ANSWER: D PAGE: 43 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

31. Fealty Credit Corporation asks its employees to evaluate their actions and get on the ethical business decision-making “bandwagon.” Guidelines for judging individual actions include all of the following except
- a. an individual’s conscience.
 - b. business rules and procedures.
 - c. loopholes in the law or company policies.
 - d. promises to others.

ANSWER: C PAGE: 44 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

32. Spencer Hydraulics Corporation’s ethics committee is asked a business ethics question—should the firm bid low to obtain a contract that it knows it can fulfill only at a higher price? A practical method to investigate and solve this question involves all of the following steps except
- a. absolution.
 - b. decision.
 - c. inquiry.
 - d. justification.

ANSWER: A PAGE: 45 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking

33. Ethical standards would most likely be considered violated if Retail Mart Corporation deals with a company in a developing nation that
- agrees to produce goods at Retail Mart's desired price.
 - goes unnoticed by "corporate watch" groups.
 - exploits its workers.
 - pays its workers less than the U.S. minimum wage.

ANSWER: C PAGE: 46 TYPE: N
 NAT: AACSB Reflective AICPA Critical Thinking

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

ANSWER: A PAGE: 47 TYPE: +
 NAT: AACSB Reflective AICPA Critical Thinking

35. To assist in detecting illegal bribes, Cut Rite Contractors, Inc., and all U.S. companies, must
- conceal financial records that reveal past bribes.
 - keep records that "accurately and fairly" reflect financial activities.
 - make bribes through third parties rather than directly to officials.
 - permit payments to foreign officials that are unlawful in that country.

ANSWER: B PAGE: 47 TYPE: =
 NAT: AACSB Analytic AICPA Legal

ESSAY QUESTIONS

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

ANSWER: When a corporate executive has to decide whether to market a product that might have undesirable side effects for a small percentage of users but that would be beneficial for most users, the decision turns on the benefit to the many versus the harm to the few. Of course, all possible precautions should be taken to protect the few. A more specific answer depends on which system of ethics is applied.

From a religious duty-based perspective, the answer might be absolute: do not sell the product because some would be harmed, sell the product only to those who would not be harmed, or sell the product with clear warnings of the possible harm. Similar conclusions might be reached through a philosophical, “categorical imperative,” duty-based approach, which would consider the result if every corporation chose to sell the product. A principle-of-rights duty-based approach might likewise come to the same conclusions, reasoning that all persons have a right to life, for example, and that the corporation has an ethical duty to respect that right and act accordingly. From a utilitarian perspective, under a cost-benefit analysis, if the product were sold, it could benefit the greatest number of persons—future and current employees, as well as shareholders, and most consumers. If there was “bad” publicity, and it was adverse enough to reduce sales, however, more persons could benefit from the decision not to market the product. Under any of the different corporate social responsibility theories, the decision whether to market the product would acknowledge the firm’s duty to act ethically and be accountable to society. There might be a balancing of the interests of competing stakeholder groups or a shouldering of the responsibility to behave in a socially beneficial way as a good corporate citizen. Of course, the firm would likely have to accept any legal liability that would arise from its sale of the product.

To apply any of these approaches, the executive might evaluate the situation according to the six guidelines for making ethical business decision. Is the action legal? Is it in line with the company’s rules? If so, is it in accord with the “spirit” of the law, those policies, and one’s conscience? Could it withstand the glare of publicity and satisfy promises made to others? It seems probable that sales of the product would violate the company’s rules—at the least because in the long run the sales could negatively impact corporate profits when some are harmed by the product’s use—and that, thus, the sales could not withstand publicity, promises to others, or any individual’s conscience. Under the five-step procedure to

review the ethical conflicts, the first step is to specify the facts, the problem, and the ethical principles at issue. The second step is to discuss potential actions and their effects. The third step is to come to a consensus as to what to do. This consensus should withstand moral scrutiny (the fourth step) and fulfill corporate, community, and individual values (the fifth step). It seems unlikely that a proposed sale of the product would survive the fourth step, under either a duty-based or an outcome-based ethical standard.

PAGES: 33–36 & 41–45
NAT: AACSB Reflective

TYPE: N
AICPA Decision Modeling

2. Recreation & Sports Equipment Corporation sells a product that is capable of seriously injuring consumers who misuse it in a foreseeable way. Does the firm owe an ethical duty to take this product off the market? What conflicts might arise if the firm stops selling this product?

ANSWER: Ethical behavior can sometimes generate sufficient good will to warrant practicing it out of a desire for increased profits. By the same token, unethical behavior can sometimes generate enough bad publicity to warrant avoiding it out of the same desire. A business firm's activities that are perceived as ethical and receive wide publicity can benefit the firm's owners in the short run and even in the long run if the firm's enhanced public image continues to attract more consumers to its products. There is nothing unethical about making a profit. It is the behavior that generates the profit that can be questionable. Business ethics thus has a practical element. A business firm should act in its best interest. A firm interested in profits should also be interested in the public's opinion. Of course, it is not a company's fault when consumers misuse its product. If continuing to sell a product is not a strict violation of the law, stopping its sale would likely reduce profits. This could impact the firm's owners, employees, and others. But suspending sales could reduce injuries, and it could lead to increased profits from the sales of other products, if the suspension stops negative publicity. When a business entity decides to respond to what it sees as a moral or ethical obligation by removing a product from the market, an ethical conflict is raised between the firm and its employees and between the firm and its shareholders. This conflict arises directly out of the impact that the decision has on the firm's profits. If meeting this perceived obligation increases the firm's profitability, then all parties "win" and the dilemma would be easily resolved in favor of "doing the right thing."

PAGES: 33–36 & 42–45
NAT: AACSB Reflective

TYPE: +
AICPA Decision Modeling