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1. Contracts allow managers to make their own "public" law.
  - a. True
  - b. False
2. Private law provides the legal rules within which firms compete.
  - a. True
  - b. False
3. To manage risk, firms may use insurance policies.
  - a. True
  - b. False
4. The cost to firms for acting responsibly is often significantly less than the greater restrictions and costs imposed on them as a response to misdeeds or acting irresponsibly.
  - a. True
  - b. False
5. Lobbying legislators is one method by which managers can help shape the environment in which they do business.
  - a. True
  - b. False
6. Legal astuteness is a valuable managerial capability through which managers work effectively with counsel to solve complex problems and leverage resources to sustain competitive advantage.
  - a. True
  - b. False
7. Promoting economic growth is one of the primary public policy objectives of laws and regulations applicable to business.
  - a. True
  - b. False
8. Worker protection has not been a major public policy concern underlying U.S. business law.
  - a. True
  - b. False
9. A firm's illegal conduct has no bearing on the firm's competitive advantage because it does not necessarily divert funds from strategic investments or affect its image and reputation with its customers.
  - a. True
  - b. False
10. Researchers found a statistically significant inverse relationship between a country's economic prosperity, as measured by the per capita gross domestic product, and the country's judicial independence.
  - a. True
  - b. False

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11. As used in the text, the term "legal astuteness" refers to the ability of a manager to avoid situations that make consultation with legal counsel necessary.

- a. True
- b. False

12. Entering into nondisclosure agreements is an unethical practice that should not be tolerated by a legally astute manager.

- a. True
- b. False

13. A legally astute manager would take a proactive approach to legal issues and relevant regulations.

- a. True
- b. False

14. The potential for legal analysis to be ambiguous means that even the most skilled and experienced advisers and lawyers sometimes get it wrong.

- a. True
- b. False

15. Each activity in the value chain has legal aspects.

- a. True
- b. False

16. The center of operations for the European Union is located in Brussels, Belgium.

- a. True
- b. False

17. According to the text, adequate protection of minority shareholder rights increases investment in new ventures.

- a. True
- b. False

18. Under the resource-based view of a business firm, a firm's resources can be a source of sustained competitive advantage if they are valuable, rare, and perfectly imitable by competitors.

- a. True
- b. False

19. Self-regulation within the advertising industry has been largely successful in making any bans on deceptive advertising unnecessary.

- a. True
- b. False

20. The Systems Approach recognizes that law is dynamic, as opposed to static.

- a. True
- b. False

21. J.P. Morgan Chase's "Sons and Daughters" hiring program, involving hiring children of China's ruling elite, was

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approved by the U.S. Department of Justice and the Securities Exchange Commission.

- a. True
- b. False

22. Private property rights provide one area in which laws and regulations can promote economic growth.

- a. True
- b. False

23. Which of the following is NOT one of the four primary public policy objectives furthered by laws and regulations applicable to U.S. business?

- a. Promoting economic growth
- b. Protecting workers
- c. Promoting consumer welfare
- d. Promoting governmental regulation

24. In what way do managers make their own private law?

- a. By advocating for judicial independence
- b. By submitting to burdensome licensing requirements and filing fees
- c. By retaining counsel ahead of any problems or issues
- d. By entering into contracts and crafting certain governance structures

25. The \_\_\_\_\_ approach recognizes that "business decisions consist of continuous, interrelated economic and moral components."

- a. procedural
- b. systems
- c. conciliatory
- d. mandated

26. The \_\_\_\_\_ theory recognizes that firms have relationships with many constituent groups which both affect and are affected by the actions of the firm.

- a. stakeholder
- b. stockholder
- c. relational
- d. cohesive

27. The \_\_\_\_\_ was enacted after widespread abuses in the subprime mortgage market.

- a. Walsh-Healy Mortgage Reformation and Consumer Protection Act of 2009
- b. Mortgage Lending and Financial Reform Act of 2009
- c. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
- d. Financial Institution Regulatory Pronouncement and Consumer Revision Act of 2010

28. Legally astute management teams practicing strategic compliance management

- a. view the cost of complying with government regulation as an investment, not an expense.
- b. view the cost of complying with government regulation as an expense that should be avoided until legal action is threatened.

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- c. do only the minimum necessary to comply with any applicable law.
  - d. view the cost of complying with government regulation as an expense that should be avoided until legal action is threatened, while only engaging in the minimum efforts necessary to comply with any applicable law.
29. Which of the following does NOT provide an example of how organizations and the law are endogenously coevolutionary?
- a. Managers lobbying legislators
  - b. Managers forming coalitions
  - c. Managers lobbying members of the executive branch
  - d. Government relying on managers' self-regulation
30. \_\_\_\_\_ law is a type of law referencing formal rules embodied in constitutions and statutes enacted by legislatures.
- a. Public
  - b. Private
  - c. Substantive
  - d. Remedial
31. In which of the following ways does U.S. law promote consumer welfare?
- a. Facilitate innovative products and services
  - b. Regulate certain terms and conditions of employment
  - c. Collect taxes and spend money
  - d. Protect the environment
32. In which of the following ways does U.S. law protect workers?
- a. Facilitate innovative products and services
  - b. Prevent deceptive practices
  - c. Collect taxes and spend money
  - d. Require employers to provide certain benefits
33. In 2016, which of the following spent the most in efforts toward lobbying lawmakers?
- a. Blue Cross/Blue Shield
  - b. U.S. Chamber of Commerce
  - c. National Association of Realtors
  - d. JPMorgan Chase
34. Which of the following statements regarding a comparison of the law of the United States and the law of the European Union is true?
- a. Laws of the United States and the European Union differ in regard to consumer privacy and emissions standards but are similar in regard to chemical usage and accounting standards.
  - b. Laws of the United States and the European Union differ in regard to consumer privacy, emissions standards, and chemical usage but are similar in regard to accounting standards.
  - c. Laws of the United States and the European Union differ in regard to consumer privacy, emissions standards, chemical usage, and accounting standards.
  - d. Laws of the United States and the European Union are similar in all significant areas involving business

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regulation and vary in only minor respects.

35. Which of the following statements is true regarding typical requirements placed on employers mandating the provision of employee benefits?

- a. Employers are typically required to provide workers' compensation, to pay unemployment insurance, and to pay social security and Medicare taxes.
- b. Employers are typically required to pay unemployment insurance, to pay social security and Medicare taxes, and to provide health and life insurance as well as paid time off.
- c. Employers are typically required to pay workers' compensation insurance, to pay social security and Medicare taxes, and to provide sick time and vacation time.
- d. Employers are typically required to provide workers' compensation and to pay unemployment insurance, but employers are not required to pay social security and Medicare taxes.

36. At its core, legal astuteness is the ability of a manager to

- a. effectively communicate and solve problems with counsel.
- b. prevent deceptive trade practices and piracy.
- c. develop the firm's brand and marketing strategy.
- d. encourage the sale of safe products at a fair price.

37. The "systems approach" to business and society builds on which of the following stakeholder theory insights?

- a. Firms have relationships with many constituent groups, which both affect and are affected by the actions of the firm.
- b. Firms have relationships with many constituent groups, and that these groups must be managed to best promote value to stockholders.
- c. Although firms have relationships with many constituent groups, these groups have little impact on the ongoing management of business firms.
- d. Firms have relationships with only a few groups, such as employees, that are directly connected with business operations.

38. Firms with \_\_\_\_\_ have the ability to learn and adjust to circumstances in order to seize opportunities while dealing with competitive threats at the same time.

- a. dynamic capability
- b. strategic compliance
- c. expansive public policy
- d. judicial independence

39. Which of the following has the responsibility for deciding which allocation of resources and rewards in a business makes the most business sense?

- a. The general manager
- b. The in-house lawyer
- c. An independently retained lawyer
- d. An independently retained law firm, not just one lawyer

40. Which of the following is NOT a component of legal astuteness as referenced in the text?

- a. A set of value-laden attitudes about the importance of law to the firm's success
- b. A practice of leaving the resolution of legal issues to outside counsel

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- c. The ability to exercise informed judgment when managing the legal aspects of business
  - d. Context-specific knowledge of the law and the appropriate use of legal tools
41. Which of the following is a component of managing risk when assembling a team in business development?
- a. Analyzing any covenants not to compete
  - b. Purposefully refusing to address issues such as sexual harassment
  - c. Informing employees that e-mail communications are not discoverable
  - d. Ignoring whistleblower protection
42. The \_\_\_\_ approach to business and society introduced in the text is a descriptive framework that integrates legal and societal considerations with mainstream theories of competitive advantage and social responsibility.
- a. Integrative
  - b. Systems
  - c. Proactive
  - d. Economic
43. \_\_\_\_ strategies for dealing with the interface between a firm's business and the natural environment that go beyond environmental regulatory compliance have been associated with \_\_\_\_ financial performance.
- a. Proactive; sub-par
  - b. Legislative; improved
  - c. Proactive; improved
  - d. Defensive; peak
44. Which of the following entities is at the center of a systems approach to law, business, and society?
- a. Public law
  - b. Value proposition
  - c. Competitive environment
  - d. Top management team
45. Under the \_\_\_\_\_ view of the firm, resources can be a source of competitive advantage if they are \_\_\_\_\_.
- a. resource-based; rare
  - b. systems-based; hard to copy
  - c. resource-based; available to competitors
  - d. systems-based; available to competitors
46. \_\_\_\_\_ is a type of relationship building lobbying that is prevalent in China.
- a. Xantu
  - b. Olaying
  - c. Guanxi
  - d. Quinta
47. U.S. laws promote public welfare in a variety of ways. Which of the following would be one of those ways?
- a. Protecting fundamental rights
  - b. Preventing deceptive practices

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- c. Regulating terms and conditions of employment
- d. Allocating risks

48. Lobbying activities look different in the European Union from the way they look in the United States. Which of the following represents the advice of lobbyists for U.S. interests in the European Union?

- a. Refrain from presenting your position to commission members individually; the presentation must be to the full commission to be considered.
- b. The most effective lobbying follows the relevant EU commission's preliminary draft opinion.
- c. Refrain from any lobbying activity until a full presentation can be made to regulators.
- d. Present your position to regulators ahead of any political debate on the issue.

49. Management teams that practice \_\_\_\_\_.

- a. value-based compliance management view the cost of compliance as an expense rather than an investment
- b. strategic compliance management identify and embrace operational changes in order to convert regulatory constraints into innovation opportunities
- c. resource-based management see regulation compliance as a competitive advantage
- d. strategic-based risk management are the most legally astute of managers

50. Which of the following is NOT one of "Porter's Five Forces" that affect the competitive environment?

- a. Threat of entry
- b. Direct competition
- c. Logistics and component supply
- d. Buyer power

51. Which of the following falls within the legal limits of lobbyist activity?

- a. Giving gifts to governmental officials
- b. Contributing to entities that hold the lawmaker's interest
- c. Hosting campaign events for lawmakers running for reelection
- d. Paying lawmakers' staff for personal access to lawmakers on behalf of client

### Fact Pattern 1-1

Deven, the CEO of Chemoceuticals, which was involved in the production and sale of pharmaceuticals, decided to hire new employees to research and develop new drugs for a planned expansion into treatments for diseases of immune deficiency. Deven was concerned, however, that the employees specializing in these drugs might leave at some point, taking company secrets with them for use in competition with Chemoceuticals. Deven, therefore, required that the employees sign contracts containing covenants not to compete. After consulting with in-house counsel regarding the effect of some new regulations involving the use of certain pharmaceutical agents, Deven wonders whether to ignore the regulations until some type of investigation of the company is started. Counsel believes that more than likely no one will ever check to see whether Chemoceuticals is in compliance. Deven disagrees with this assessment and decides to seek other counsel.

52. Refer to Fact Pattern 1-1. The covenants not to compete involved which of the following types of law?

- a. Public
- b. Private

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- c. Circumscribed
- d. Tangential

53. Refer to Fact Pattern 1-1. The use of covenants not to compete involves which of the following forces identified by Michael Porter and referenced in the text?

- a. Supplier power
- b. Threat of entry
- c. Substitution
- d. Buyer power

54. Refer to Fact Pattern 1-1. The government regulations pertaining to the use of certain pharmaceutical agents involved which of the following types of law?

- a. Public
- b. Private
- c. Circumscribed
- d. Tangent

55. Refer to Fact Pattern 1-1. Assuming that Deven seeks to be a legally astute manager, which of the following is true regarding the advice given by initial counsel to ignore the regulations pending an investigation?

- a. Counsel is correct that it is unlikely that any investigation will ever occur and that the regulations may be safely ignored.
- b. Counsel is correct only if Chemocuticals has not had past investigations because if past investigations have occurred, it is more likely that the company will be the target of future investigations.
- c. Counsel is incorrect but only because safety regulations are concerned.
- d. Counsel is incorrect because a legally astute manager will take a proactive approach to regulations.

56. Merle, the CEO of a corporation owning a number of pet stores, calls you for advice. Merle shares inside information that the stock of the company is going to go down because of reports that a number of dogs sold by the store had become ill and that Merle, therefore, immediately sold all personal stock in the company before the information became public. Then Merle tells you that counsel has warned of pending charges of securities violation involving Merle's insider trading. Which of the following is true regarding Merle's situation?

- a. Corporate executives may be fined but may not be sent to jail.
- b. Corporate executives may be sent to jail, but only for offenses endangering others.
- c. Corporate executives may be sent to jail, but only for fraud involving banks.
- d. Corporate executives may be sent to jail for violation of criminal laws.

57. In CASE 1.1 *Sorrell v. IMS Health Inc.*, drug manufacturers challenged as unconstitutional a Vermont statute prohibiting pharmacies from selling prescriber-identifying information for marketing prescription drugs without the consent of prescribers. What was the U.S. Supreme Court ruling in this matter?

- a. Although speech promoting marketing was not protected by the First Amendment, the law was unconstitutional based on the due process clause.
- b. The statute regulated commercial speech, which was evaluated under an "intermediate" standard and the law was, therefore, constitutional.
- c. The statute did not involve constitutional issues and was, therefore, a permissible type of regulation.
- d. The conduct prohibited by the law was protected by the First Amendment and the law was unconstitutional.



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58. Under the resource-based view of a firm, when can a firm's resources be a source of sustained competitive advantage?

59. In what three specific ways does U.S. law protect workers?

60. Assume that after paying a large fine, a company survives charges of illegal activity. In what ways does illegal conduct put a company at a competitive disadvantage?

61. Discuss ways in which laws and regulations promote economic growth.

62. How does U.S. business law promote consumer welfare?

63. Law is not just a static, external force acting upon managers and their firms; rather law and organizations are "endogenously coevolutionary."

a. True

b. False

64. Legally astute management teams typically wait until later in the strategic development to bring counsel in and evaluate legal considerations.

a. True

b. False

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### **Answer Key**

1. False

2. False

3. True

4. True

5. True

6. True

7. True

8. False

9. False

10. False

11. False

12. False

13. True

14. True

15. True

16. True

17. True

18. False

19. False

20. True

21. False

22. True

23. d

24. d

25. b

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26. a

27. c

28. a

29. d

30. a

31. a

32. d

33. b

34. c

35. a

36. a

37. a

38. a

39. a

40. b

41. a

42. b

43. c

44. d

45. a

46. c

47. a

48. d

49. b

50. c

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- 51. b
- 52. b
- 53. c
- 54. a
- 55. d
- 56. d
- 57. d
- 58. When they are valuable, rare, and imperfectly imitable by competitors and have no strategically equivalent substitutes.
- 59. Worker protections is accomplished by regulating certain terms and conditions of employment, requiring the employer to provide certain benefits, and protecting workers' civil rights.
- 60. Illegal conduct can put a firm at a competitive disadvantage by diverting funds from strategic investments, tarnishing the firm's image with customers and other stakeholders, raising capital costs, and reducing sales volume.
- 61. Laws and regulations promote economic growth by protecting private property rights; enforcing private agreements; allocating risks; facilitating the raising of capital; creating incentives to innovate; promoting liquid and skilled labor markets; providing subsidies, tax incentives, and infrastructure; and promoting free trade in global markets.
- 62. By encouraging the sale of safe and innovative products and services at a fair price, preventing deceptive practices, and protecting consumer privacy.
- 63. True
- 64. False