

## Chapter 2

### *Ethical Decision Making*

#### CHAPTER SUMMARY

Ethical decision making in business is often difficult and complex. Some situations are easily handled because what one ought to do or what is right and wrong are evident. Those situations that give us pause or produce moral anguish require careful thought and ultimately an ability to engage in ethical reasoning. This chapter contributes to an understanding of ethical decision making by offering a division of business ethics into two parts: an ethics of the market and an ethics of roles and relationships, including firms. In business, we deal with some parties purely as market actors who are on the other side of a market transaction or exchange. For such market activity, certain moral rules or standards apply. These relationships are governed by professional ethics, a prime example being the legal profession. In addition to the law, an attorney must follow professional codes of ethics established by the state bar and/or professional association he or she belongs to. These codes can impose a greater obligation to act in the best interests of the client. For example, the attorney-client relationship imposes on the attorney a duty to avoid conflicts of interests, to protect client property, and to closely guard confidential information. Other professional relationships involving business dealings can also take the form of an agency. These relationships are built on trust and confidence so the principal's interests must be protected. The agent owes the principal a duty of loyalty to act in the principal's best interest in all business dealings involving the agency. When we attempt to think through the ethical issues that arise in business, we are engaging in ethical reasoning, which may be conducted on different levels. Ethical theories, which are presented in the next chapter, can guide ethical reasoning on the highest level by providing the most comprehensive and fundamental grounds for our moral beliefs and judgments. Fortunately, substantial moral arguments that do not require an understanding of these theories can be constructed. Most of our everyday ethical reasoning employs familiar ethical concepts and principles that can be readily understood and applied. Accordingly, this chapter provides a framework of seven basic ethical principles that are sufficient for most business decision making. For those who seek more, though, the next chapter provides a survey of the main philosophical theories of ethics.

#### CHAPTER OBJECTIVES

- 2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions
- 2.2: Identify the duties and obligations associated with fundamental business roles and relationships in markets and firms
- 2.3: Describe the philosophical and psychological approaches to ethical reasoning and the principles that constitute a moral framework for business conduct

## SUGGESTED DISCUSSION PROMPTS

1. What is ethically required of participants in a market economic system?
2. In what ways do participants in a market system have to depend upon each other?
3. In what ways do ethical considerations work against perfect operation of a market economy?
4. How does the prisoner's dilemma reflect the limitations of a free market system?
5. What capacities are required of an agent to engage in ethical reasoning?

## ASSESSMENT FOR IN-CLASS USE

### *Multiple Choice Questions*

Choose the BEST possible answer for each of the following.

1. A market economy is based fundamentally on \_\_\_\_\_.
  - A. ethical motivations
  - B. the profit motive
  - C. human welfare
  - D. manufacturing

Correct Answer: B

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Easy

Skill Level: Understanding

2. A market with perfect competition would require \_\_\_\_\_.
  - A. agents to not be rational
  - B. that there be no contracts
  - C. that ethics not be necessary
  - D. ethical guidelines to be legally codified

Correct Answer: C

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Easy

Skill Level: Understanding

3. Fraud is unethical because \_\_\_\_\_.
  - A. all parties must have access to pertinent information
  - B. no one may be permitted to profit too much
  - C. market economies require freedom of action

D. the market requires everyone to further their own interests

Correct Answer: A

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Easy

Skill Level: Understanding

4. The difference between *Homo economicus* and actual people is that \_\_\_\_\_.
- A. *Homo economicus* is capable of making any decision
  - B. *Homo economicus* pursues many different interests
  - C. actual people pursue their own self-interest
  - D. actual people are less than perfectly rational

Correct Answer: D

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Moderate

Skill Level: Analysis

5. A market economy alone cannot sustain public goods because \_\_\_\_\_.
- A. no one would want to take advantage of public goods
  - B. people would be free riders if they could be
  - C. people would try to sell each other public goods
  - D. participants in a market economy are imperfectly rational

Correct Answer: B

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Moderate

Skill Level: Application

6. Market outcomes lead to unequal outcomes mainly because \_\_\_\_\_.
- A. it involves random processes
  - B. participants have differing levels of skill
  - C. free markets are inherently unjust
  - D. there is government interference

Correct Answer: B

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics  
Difficulty Level: Moderate  
Skill Level: Analysis

7. A fiduciary has the special responsibility to \_\_\_\_\_.
- A. care for another's financial interests
  - B. sell goods as efficiently as possible
  - C. provide as much information as possible
  - D. take a professional interest in another's success

Correct Answer: A

2.2: Identify the duties and obligations associated with fundamental business roles and relationships in markets and firms

Topic/Concept: Roles, Relationships, and Firms

Difficulty Level: Easy

Skill Level: Understanding

8. Professions have a contract with society whereby they \_\_\_\_\_ in exchange for sharing the many benefits of their specialized knowledge.
- A. submit to total government regulation
  - B. relinquish control over their work
  - C. forgo licensing requirements
  - D. are granted self-regulation

Correct Answer: D

2.2: Identify the duties and obligations associated with fundamental business roles and relationships in markets and firms

Topic/Concept: Roles, Relationships, and Firms

Difficulty Level: Easy

Skill Level: Understanding

9. From a traditional economic point of view, a firm was viewed as \_\_\_\_\_ which sought to maximize its profits.
- A. a combination of markets and relationships
  - B. a series of relationships, roles, and markets
  - C. a moral actor
  - D. a market actor

Correct Answer: D

2.2: Identify the duties and obligations associated with fundamental business roles and relationships in markets and firms

Topic/Concept: Roles, Relationships, and Firms

Difficulty Level: Easy

Skill Level: Understanding

10. The ethical concept of dignity most centrally involves \_\_\_\_\_.
- A. treating all persons equally
  - B. disclosing all information that is needed by others
  - C. recognizing the intrinsic value of persons or other entities
  - D. behaving with high standards of virtue

Correct Answer: C

2.3: Describe the philosophical and psychological approaches to ethical reasoning and the principles that constitute a moral framework for business conduct

Topic/Concept: Ethical Reasoning

Difficulty Level: Easy

Skill Level: Understanding

### *Essay Questions*

1. What are the basic components of a market system, and what assumptions are made about human behavior?

2.1: Recognize the features of the market system, the ethics of market transactions, and the problems created by imperfect market conditions

Topic/Concept: Market Ethics

Difficulty Level: Moderate

Skill Level: Application

2. What is the difference between a fiduciary and an agent? What special obligations are characteristic of a fiduciary that is not an agent?

2.2: Identify the duties and obligations associated with fundamental business roles and relationships in markets and firms

Topic/Concept: Roles, Relationships, and Firms

Difficulty Level: Moderate

Skill Level: Analysis

3. What are the required components of the moral point of view, and how are they exercised in a business setting?

2.3: Describe the philosophical and psychological approaches to ethical reasoning and the principles that constitute a moral framework for business conduct

Topic/Concept: Ethical Reasoning

Difficulty Level: Moderate

Skill Level: Analysis

4. What are some basic questions that should be asked when making a decision that poses an ethical dilemma?

2.3: Describe the philosophical and psychological approaches to ethical reasoning and the principles that constitute a moral framework for business conduct

Topic/Concept: Ethical Reasoning

Difficulty Level: Moderate

Skill Level: Application

5. Describe "context" and how it affects ethics and the decision-making process.

2.3: Describe the philosophical and psychological approaches to ethical reasoning and the principles that constitute a moral framework for business conduct

Topic/Concept: Ethical Reasoning

Difficulty Level: Easy

Skill Level: Understanding