

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. Much of business, however, involves roles and relationships and takes place in firms or organizations. These roles, relationships, and firms arise in a market, but, by mutual agreement in a market, we take ourselves out of the market and govern our actions by a different "ethics," the ethics of these roles and relationships.

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 can be constructed that do not require an understanding of these theories. 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

- Identify the ethical duties and obligations of business that arise from the market.
- Identify the ethical duties and obligations of business that arise from roles and relationships.
- Describe the philosophical bases of ethical reasoning.
- Describe the psychological bases of ethical reasoning.

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

The following assessment has been created for in-class use. This assessment may be available through Pearson's MyTest website—allowing for easy access for creating your own tests. This assessment may also be offered in a Blackboard/Angel/D2L/WebCT package. *Please contact your local Pearson sales representative to learn about the options available. Visit, <http://www.pearsonhighered.com/replocator>.*

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

Answer: B

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

Answer: C

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

Answer: A

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

Answer: D

5. A market economy alone cannot sustain public goods because_____.
- A. no one would want to take advantage of public goods
 - B. everyone 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

Answer: B

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

Answer: B

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

Answer: A

8. The ethical requirements that are specific to professionals arise in part from _____.
- A. their duty not to profit at others' expense
 - B. the implicit contract that they have with other professionals
 - C. the duties they owe to their governing association
 - D. their specialized knowledge and responsibilities

Answer: D

9. The internal workings of firms are founded on_____.
- A. markets
 - B. agents
 - C. roles
 - D. relationships

Answer: D

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

Answer: C

Essay Questions

1. What are the basic components of a market system, and what assumptions are made about human behavior?
2. What is the difference between a fiduciary and an agent? What special obligations are characteristic of a fiduciary that is not an agent?
3. What are the required components of the moral point of view, and how are they exercised in a business setting?

