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| 1. The reduction of problems to a bad decision and then figuring out who made the decision and why they made the decision are two steps in   |  |  |  | | --- | --- | --- | |  | a. | problem solving. | |  | b. | performing marginal cost-benefit analysis. | |  | c. | calculating the profits of an auction house. | |  | d. | interviewing for a job. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 2. Problem solving is   |  |  |  | | --- | --- | --- | |  | a. | firing whomever is responsible for mistakes. | |  | b. | performing marginal cost-benefit analysis. | |  | c. | calculating the profits of an auction house. | |  | d. | the reduction of problems to a bad decision and then figuring out who made the decision and why they made the decision. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 3. A model of how humans behave, particularly "the rational actor" paradigm, is a necessary assumption for   |  |  |  | | --- | --- | --- | |  | a. | computerization of data within a business organization. | |  | b. | the problem-solving algorithm. | |  | c. | not assuming people are inherently good. | |  | d. | assuming that humans are inherently altruistic. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 4. To follow the problem-solving algorithm, which one of the following is required?   |  |  |  | | --- | --- | --- | |  | a. | Computerization of data within a business organization. | |  | b. | A model of how humans behave, particularly "the rational actor" paradigm. | |  | c. | Not restricting human action to a set of tractable rules. | |  | d. | Assuming that humans are inherently altruistic. |  |  |  | | --- | --- | | *ANSWER:* | b | |

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| 5. The rational actor paradigm is characterized by all of the following except:   |  |  |  | | --- | --- | --- | |  | a. | The assumption people act rationally. | |  | b. | The assumption people act optimally. | |  | c. | The assumption people act in their self-interest. | |  | d. | The assumption people act in a group's best interest. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 6. Which of the following questions is not used to diagnose the source of a problem in the problem-solving algorithm?   |  |  |  | | --- | --- | --- | |  | a. | Who is making the bad decision? | |  | b. | Does the development agent have enough information to make a good decision? | |  | c. | Does the development agent have the incentive to make a good decision? | |  | d. | Why does the development agent have any incentives outside the interests of the firm? |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 7. When an employee has enough information to make good decisions, and the incentive to do so, we say   |  |  |  | | --- | --- | --- | |  | a. | that the employee's incentives are orthogonal to the goals of the organization. | |  | b. | that the employee's incentives need to be removed in order to better help the organization. | |  | c. | that the employee's incentives are aligned with the goals of the organization. | |  | d. | that the employee's incentives are unnecessary and only come at a cost to the firm. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 8. Suppose an auction house has experts that are empowered to negotiate commission rates with owners of art. Rates can be anywhere from 10% to 30%. Auction house management soon discovers that almost all negotiated commissions are either at 10% or very close to it. Use the problem-solving algorithm to select a likely explanation below.   |  |  |  | | --- | --- | --- | |  | a. | The art experts negotiate low commission rates in exchange for in-kind gifts from art owners. | |  | b. | The art experts are not capable of adequately identifying art that would sell for enough money at auction to warrant higher commission rates; it is a lack of information. | |  | c. | The art experts find their flat salary adequate and are happy to help their employer maximize profit. | |  | d. | The art experts are adversarial with art owners and know that paying low commissions in the high-end art world is akin to admitting relative poverty to other art owners. |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 9. Suppose a car dealership hires dealers to sell their cars. The dealers can negotiate the sales prices of cars within certain ranges above the manufacturer's suggested retail price (MSRP), between 2% and 10% higher. In addition, the dealers are given 5% of the total value of the car sold. The owners of the dealership, however, soon discover that almost all dealers are selling cars for only a 2% markup over MSRP. Use the problem-solving algorithm to select a likely explanation below.   |  |  |  | | --- | --- | --- | |  | a. | Dealers do not have enough information about which cars are likely to sell for higher markups over MSRP. | |  | b. | Dealers are incapable of negotiating for higher markups due to lack of persuasive ability. | |  | c. | Dealers are not to blame. Dealership management should never give them the power to negotiate sales price. | |  | d. | Dealers get paid based off the price of the car sold and benefit more from selling more cars at a 2% markup versus fewer cars at a 10% markup. |  |  |  | | --- | --- | | *ANSWER:* | d | |

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| 10. In economics, changing incentives changes   |  |  |  | | --- | --- | --- | |  | a. | the technical costs associated with production within a firm. | |  | b. | the productive capacity of the physical capital within a firm. | |  | c. | the behavior of people within a firm. | |  | d. | the entire industry that a firm is within. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 11. Recognizing that individuals tend toward self-interest is equivalent to encouraging selfish behavior.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 12. Recognizing that individuals tend toward self-interest is not equivalent to encouraging selfish behavior.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 13. The rational actor paradigm is much more than a tool for analyzing behavior; indeed, it is a good way to live your life.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 14. The rational actor paradigm is a tool for analyzing behavior and a good way to live your life.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 15. Recognizing that individuals tend toward self-interest is not equivalent to encouraging selfish behavior.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | True | |

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| 16. Recognizing that individuals tend toward self-interest is equivalent to encouraging selfish behavior.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False |  |  |  | | --- | --- | | *ANSWER:* | False | |

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| 17. The rational actor paradigm is all of the following except:   |  |  |  | | --- | --- | --- | |  | a. | a tool for analyzing behavior. | |  | b. | a framework that models humans as tending toward rational self-interest. | |  | c. | advice for people on how to live life. | |  | d. | a framework that models humans as acting optimally as determined by the actors themselves. |  |  |  | | --- | --- | | *ANSWER:* | c | |

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| 18. Judging outcomes as good or moral due to the outcomes that result from actions is a \_\_\_\_\_\_\_ approach to morality. Judging outcomes according to their correspondence (or lack thereof) to some outside set of principles or standards is known as \_\_\_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | consequentialist; deontology | |  | b. | deontologist; consequentialism | |  | c. | consequentialist; consequentialism | |  | d. | deontologist; deontology |  |  |  | | --- | --- | | *ANSWER:* | a | |

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| 19. Arguing that governments ought to regulate monopolies because they charge prices that are too high is \_\_\_\_\_\_\_ argument.   |  |  |  | | --- | --- | --- | |  | a. | a consequentialist | |  | b. | a deontological | |  | c. | neither deontological nor a consequentialist | |  | d. | both a deontological and a consequentialist |  |  |  | | --- | --- | | *ANSWER:* | a | |