|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. Recognizing that individuals tend toward self-interest is equivalent to encouraging selfish behavior.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. Recognizing that individuals tend toward self-interest is not equivalent to encouraging selfish behavior.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 15. Recognizing that individuals tend toward self-interest is not equivalent to encouraging selfish behavior.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | True |

 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 16. Recognizing that individuals tend toward self-interest is equivalent to encouraging selfish behavior.

|  |  |  |
| --- | --- | --- |
|   | a.  | True |
|   | b.  | False |

|  |  |
| --- | --- |
| *ANSWER:* | False |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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 |

 |