Student name:\_\_\_\_\_\_\_\_\_\_

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.  
1)** When unemployment increases, the proportion of the population covered by health insurance decreases.

⊚ true  
 ⊚ false

**2)** The degree to which pay influences individual and aggregate motivation among employees is called a sorting effect.

⊚ true  
 ⊚ false

**3)** When looking at the total CEO compensation of U.S. public companies, salary was the largest, most significant compensation component.

⊚ true  
 ⊚ false

**4)** Commissions are an example of incentives.

⊚ true  
 ⊚ false

**5)** Most U.S. firms use merit pay increases.

⊚ true  
 ⊚ false

**6)** Base wage reflects both the value of the work and individual employee skills and experience.

⊚ true  
 ⊚ false

**7)** Pension and health benefits are a very large component of total compensation for many large companies such as American Airlines and GM.

⊚ true  
 ⊚ false

**8)** Merit bonuses are paid in a lump sum and do not become a permanent part of base salary.

⊚ true  
 ⊚ false

**9)** Procedural fairness suggests that the way a pay decision is made is of less importance to employees than the results of the decision.

⊚ true  
 ⊚ false

**10)** If the objective is to increase customer satisfaction, then incentive programs and merit pay might be used to pay for performance.

⊚ true  
 ⊚ false

**11)** Objectives guide the design of pay systems and provide standards for evaluating their effectiveness.

⊚ true  
 ⊚ false

**12)** Even if federal compensation laws change, it is unnecessary to change pay systems to ensure continued compliance.

⊚ true  
 ⊚ false

**13)** Internal alignment pertains to the pay rates both for employees doing equal work and for those doing dissimilar work.

⊚ true  
 ⊚ false

**14)** A manager can use one of four proven pay techniques that tie basic policies to the pay objectives.

⊚ true  
 ⊚ false

**15)** Management and HR research has conclusively shown that goal setting and job enrichment produce the largest and most reliable increases in job performance.

⊚ true  
 ⊚ false

**16)** Fairness is affected through employees' comparisons of their pay to the pay of others in the organization.

⊚ true  
 ⊚ false

**17)** Consultant surveys are often presented as studies that reveal cause and effect.

⊚ true  
 ⊚ false

**18)** In Japan, the traditional characters for the word "compensation" are based on the symbols for logs and water, suggesting that compensation provides the necessities in life.

⊚ true  
 ⊚ false

**19)** The relationship between variables is most often addressed through the use of statistical analysis.

⊚ true  
 ⊚ false

**20)** The*R*2, which is an output from a regression analysis, is different from correlation in that it tells us what percentage of the variation is accounted for by the variables we are using to predict or explain.

⊚ true  
 ⊚ false

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.  
21)** Total CEO annual compensation at S&P 500 companies is roughly $12.3 million. At just over half that total ($6.5 million), which compensation component comprises the majority of that total compensation amount?

A) Stock option awards   
 B) Salary  
 C) Stock grants  
 D) Bonuses

**22)** The "say on pay" and clawback provisions are included in which of the following federal laws?

A) The Dodd-Frank Wall Street Reform and Consumer Protection Act   
 B) The Affordable Care Act of 2010  
 C) The Fair Labor Standards Act (FLSA)  
 D) The Cost-of-Living Act (COLA)

**23)** One of the reasons why the great majority of the uninsured in the United States are from working families is that

A) many larger employers do not offer health insurance as it does not guarantee an increase in productivity levels.   
 B) health insurance is costlier for larger employers.  
 C) many small employers are much less likely than larger employers to offer health insurance to their employees.  
 D) most workers decline health insurance when it is offered by their employers.

**24)** The degree to which pay influences individual and aggregate motivation among employees at any point in time is referred to as a(n):

A) sorting effect.   
 B) incentive effect.  
 C) turnover effect.  
 D) directional effect.

**25)** Which of the following is an example of a relational return?

A) A short-term incentive   
 B) Employment security  
 C) Allowances  
 D) Income protection

**26)** Which of the following is given as an increment to base pay in recognition of past work behavior?

A) Merit bonuses   
 B) Relational returns  
 C) Merit increases  
 D) A short-term incentive

**27)** GreenRain Corp. faces an increase in its employee turnover rate. The CEO calls for a board meeting with the senior executives to discuss the issue. Who among the following suggests increasing the relational returns that employees receive to reduce the turnover rate at GreenRain?

A) Tom, who suggests increasing the decision-making authorities given to the employees to make work more challenging   
 B) Deena, who suggests providing more work/life balance to the employees by increasing the number of paid leaves  
 C) Syed, who suggests increasing the medical insurance coverage offered to the employees  
 D) Liam, who suggests increasing merit bonuses

**28)** Which of the following statements concerning cash compensation and the Fair Labor Standards Act is true?

A) Nonexempt employees have their pay calculated at an hourly wage.   
 B) Exempt workers receive overtime pay.  
 C) Managers and professionals usually fit the category of nonexempt worker.  
 D) Labeling all base pay as "salary" means the employer does not have to follow the FLSA regulations.

**29)** Which of the following is true of incentives?

A) They are determined after past performance is evaluated.   
 B) They are linked to subjective performance measures.  
 C) They permanently increase labor costs.  
 D) They are re-earned each pay period.

**30)** Which of the following companies is taking efforts to improve the work/life balance of its employees?

A) MH Corp., which increases the number of paid holidays given to its senior employees   
 B) Kay Corp., which increases the transport allowance for its employees by 10 percent  
 C) Haywire Corp., which allows its employees to buy company stocks at a reduced price of $30 per share  
 D) Halo Corp., which increases the variable pay of its employees

**31)** Variable pay may also be called

A) relational returns.   
 B) merit increases.  
 C) COLAs.  
 D) incentives.

**32)** Which of the following is often the largest component in an executive pay package?

A) Base pay   
 B) Stock options  
 C) Merit bonuses  
 D) Incentives

**33)** Unlike merit increases, merit bonuses are

A) distributed in every quarter.   
 B) based on duration of service.  
 C) paid in the form of a lump sum.  
 D) included in the base salary.

**34)** Robert, the CEO of GameTrack Corp., wants to restructure its pay plan without increasing labor costs in the long run. He is most likely to achieve this, while retaining his top employees, by:

A) increasing base pay and decreasing variable pay.   
 B) increasing incentive pay and decreasing base pay.  
 C) hiring more employees and reducing marginal product output requirements.  
 D) providing across-the-board increases on a monthly basis.

**35)** Incentives do not permanently increase labor costs because:

A) they rely on a subjective rating of performance.   
 B) they are given based on the past performances of employees.  
 C) they increase the base wage.  
 D) they are one-time payments.

**36)** A difference between incentives and merit increases is that incentives

A) do not increase the base wage, whereas merit increases increase the base wage.   
 B) cannot be tied to the performance of an individual, whereas merit increases can be tied to the performance of an individual.  
 C) rely on a subjective measure of performance, whereas merit increases rely on an objective measure of performance.  
 D) are relational returns, whereas merit increases are part of the total compensation.

**37)** Which of the following is a fundamental objective, and NOT a policy, of the pay model?

A) Fairness   
 B) Competitiveness  
 C) Contributions  
 D) Alignment

**38)** Which of the following is a policy, and NOT an objective, of the pay model?

A) Ethics   
 B) Competitiveness  
 C) Efficiency  
 D) Fairness

**39)** Which of the following are defined as comparisons among individuals doing the same job for the same organization?

A) Network of returns   
 B) Compliance  
 C) Employee contributions  
 D) Relational returns

**40)** \_\_\_\_\_\_\_\_ refers to comparisons among jobs or skill levels inside a single organization.

A) External competitiveness   
 B) Internal alignment  
 C) Compliance  
 D) Merit guidelines

**41)** In the context of pay relationships, which of the following is illegal in the United States?

A) Paying on the basis of the nature of jobs   
 B) Paying on the basis of pay comparisons with competitors  
 C) Paying on the basis of one's age  
 D) Paying on the basis of one's skill level

**42)** Managers seek internal alignment within their organization by:

A) matching competitors' pay rates.   
 B) following Fair Labor Standards Act guidelines.  
 C) using fair merit increases.  
 D) paying on the basis of similarities among jobs.

**43)** Compensation policy choices that affect the pay level relative to other companies are most closely associated with the \_\_\_\_\_\_\_\_ aspect of the pay model.

A) internal alignment   
 B) external competitiveness  
 C) employee contribution  
 D) pay system management

**44)** The decisions to implement pay for performance, flat rate pay, and profit sharing are examples of \_\_\_\_\_\_\_\_ policy decisions.

A) internal alignment   
 B) efficiency  
 C) employee contribution  
 D) management

**45)** According to the text, which of the following decisions should be made jointly?

A) Internal alignment and management decisions   
 B) External competitiveness and employee contribution decisions  
 C) Employee contribution and internal alignment decisions  
 D) Management and external competitiveness decisions

**46)** Which of the following policy decisions directly affects employees' attitudes and work behaviors?

A) Employee contributions   
 B) Internal alignment  
 C) External competitiveness  
 D) Management

**47)** You are an HR manager, and your boss has told you to find the best way to raise job performance. After some research, you find that \_\_\_\_\_\_\_\_ have the greatest instrumental value.

A) job responsibilities   
 B) training and skill development programs  
 C) goal setting and job enrichment  
 D) monetary incentives

**48)** In a study, causation can be best established by:

A) considering a single explanation.   
 B) evaluating the methodologies used.  
 C) accounting for competing explanations.  
 D) analyzing the scope of the study.

**49)** A measure of how changes in one variable are related to changes in another variable is the:

A) standard deviation.   
 B) analysis of variance.  
 C) correlation coefficient.  
 D) mean deviation.

**50)** \_\_\_\_\_\_\_\_ refers to the process used to make pay decisions.

A) Procedural fairness   
 B) Relational return  
 C) Regression analysis  
 D) Internal alignment

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.  
51)** Describe compensation from the manager's perspective.

**52)** What are the different ways in which pay can influence employee motivation and behavior?

**53)** Describe the various returns received from work.

**54)** List the three elements of the pay model.

**55)** Explain the basic compensation objectives of pay systems.

**Answer Key**Test name: chapter 1

1) TRUE

2) FALSE

3) FALSE

4) TRUE

5) TRUE

6) FALSE

7) TRUE

8) TRUE

9) FALSE

10) TRUE

11) TRUE

12) FALSE

13) TRUE

14) FALSE

15) FALSE

16) TRUE

17) TRUE

18) FALSE

19) TRUE

20) FALSE

21) C

22) A

23) C

24) B

25) B

26) C

27) A

28) A

29) D

30) A

31) D

32) B

33) C

34) B

35) D

36) A

37) A

38) B

39) C

40) B

41) C

42) D

43) B

44) C

45) B

46) A

47) D

48) C

49) C

50) A

51) For managers, compensation influences their success in two ways. First, it is a major expense that must be managed. Labor costs can account for more than 50% of total costs, or more. Competitive pressures force managers to consider the affordability of their compensation decisions. Second, compensation is a major determinant of employee attitudes and behaviors, and ultimately, organization performance. High pay, if it brings high returns, can be a successful strategy. On the other hand, employees may become interested in unions or legal action if they perceive their pay is unfairly low.

52) Pay can influence employee motivation and behavior in two ways:● Pay can affect the motivational intensity, direction, and persistence of current employees. The degree to which pay influences individual and aggregate motivation among the employees at any point in time is referred to as an incentive effect.  
● Pay can also have an indirect, but important, influence via a sorting effect. Different types of pay strategies cause different types of people to apply to and stay with an organization.

53) Returns are categorized into two types: relational returns and total compensation returns.● Relational returns are psychological and include learning opportunities, status, challenging work, and other psychological aspects.  
● Total compensation returns are transactional and include the following:● Pay received directly as cash through base pay, merit, incentives, cost-of-living adjustments, etc.  
● Pay received indirectly as benefits through pensions, medical insurance, programs to help balance work and life demands, brightly colored uniforms, etc.

54) The pay model contains three basic building blocks:● The compensation objectives  
● The policies that form the foundation of the compensation system  
● The techniques that make up the compensation system

55) The basic objectives include efficiency, fairness, ethics, and compliance with laws and regulations.● Efficiency can be stated more specifically: (1) improving performance, increasing quality, delighting customers and stockholders, and (2) controlling labor costs.  
● The fairness objective calls for fair treatment for all employees by recognizing both employee contributions (e.g., higher pay for greater performance, experience, or training) and employee needs (e.g., a fair wage as well as fair procedures).  
● Ethics means the organization cares about how its results are achieved. Because it is so important, it is inevitable that managing pay sometimes creates ethical dilemmas.  
● Compliance as a pay objective means conforming to federal and state compensation laws and regulations. If laws change, pay systems may need to change, too, to ensure continued compliance. As companies go global, they must comply with the laws of all the countries in which they operate.