**The Study of Business, Government, and Society**

**True / False Questions**

1. The business-government-society (BGS) field is the study of this environment and its importance for managers.   
True    False

2. The primary purpose of a business is to make a profit by providing products that satisfy human needs.   
True    False

3. The structures and processes in a society that make and apply policies and rules are called businesses.   
True    False

4. An enduring belief about which basic choices in a society are "correct" is called an idea.   
True    False

5. Institutions are formal patterns of relations that link people together to accomplish a goal.   
True    False

6. A business uses society's resources to create new wealth.   
True    False

7. The public generally believes that a business has social responsibilities beyond merely making a profit.   
True    False

8. The broad duties of a business that are needed to obtain the support of society are called its social contract.   
True    False

9. In the market capitalism model, the "market" acts as a buffer between business and nonmarket forces.   
True    False

10. The dominance model represents business primarily based on the economic forces that affect it.   
True    False

11. The dominance model states that corporations act primarily for the good of most of the people in the society.   
True    False

12. The dominance model believes that society is undemocratic in its operations.   
True    False

13. The countervailing forces model states that society is governed primarily by economic forces.   
True    False

14. The countervailing forces model accepts the absolute primacy of business as in the dominance model.   
True    False

15. The countervailing forces model is essentially the same as the market capitalism model.   
True    False

16. The stakeholder model states that the immediate priority of a corporation is to benefit its investors.   
True    False

17. Governments are secondary stakeholders to corporations.   
True    False

18. A concern with the stakeholder theory is that it is not always clear who or what a legitimate stakeholder is.   
True    False

19. Theories simplify and organize areas of knowledge by describing patterns or regularities in the subject matter.   
True    False

20. In addition to unprecedented wealth creation and new material comforts, capitalism also brings in risks of economic shocks.   
True    False

**Multiple Choice Questions**

21. A profit-making activity that provides products and services that are intended to satisfy human needs is called a(n) \_\_\_\_\_\_\_.   
A. business  
B. NGO  
C. government  
D. society

22. The structures and processes in a society that authoritatively make and apply policies and rules are called \_\_\_\_\_\_\_\_.   
A. ideas  
B. ideologies  
C. governments  
D. institutions

23. The network of human relations that consists of ideas, institutions, and material things is a(n) \_\_\_\_\_\_\_\_.   
A. ideology  
B. society  
C. theory  
D. government

24. An enduring belief about which fundamental choices in personal and social life are "correct" is a(n) \_\_\_\_\_\_\_.   
A. value  
B. institution  
C. function  
D. process

25. A set of values that create a specific view of the world is a(n) \_\_\_\_\_\_\_   
A. institution  
B. ideology  
C. society  
D. economy

26. A formal pattern of relations that link people together in order to accomplish a goal is a(n) \_\_\_\_\_\_\_\_.   
A. society  
B. idea  
C. institution  
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27. Which of the following statements is true about ideologies?   
A. All ideologies have the power to organize collective activity.  
B. Ideologies are structures and processes that authoritatively make and apply policies and rules.  
C. Ideologies are essential to coordinate the work of individuals who have no direct relationship with each other.  
D. Secular and sacred ideologies are distinct from one another and rarely overlap.

28. The tangible artifacts of a society that shape and are shaped by ideas and institutions are called \_\_\_\_\_\_\_.   
A. material things  
B. markets  
C. customs  
D. services

29. The basic agreement between a business and its society that defines the broad duties of the business that are needed to retain the support of society is called a(n) \_\_\_\_\_\_\_.   
A. social contract  
B. ideology  
C. institution  
D. scheme

30. Which of the following statements about social contracts is true?   
A. Businesses are not obligated to fulfill social contracts.  
B. It codifies the expectations of business from society and other stakeholders.  
C. It is as clear-cut as the economic forces a business faces.  
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31. Which of the following models describes business as responding primarily to economic forces in society?   
A. The market capitalism model  
B. The stakeholder model  
C. The dominance model  
D. The countervailing forces model

32. In the \_\_\_\_\_ model, the \_\_\_\_\_ acts as a buffer between business and non-market forces.   
A. stakeholder; market  
B. countervailing forces; government  
C. dominance; management  
D. market capitalism; market

33. A \_\_\_\_\_ emerges when people move beyond subsistence production to production for trade, and markets take on a more central role.   
A. centrally planned economy  
B. welfare economy  
C. market economy  
D. socialist economy

34. Which of the following is NOT one of the basic BGS models?   
A. The market capitalism model  
B. The dominance model  
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D. The stakeholder model

35. Who wrote "The Wealth of Nations"?   
A. Karl Marx  
B. Émile Durkheim  
C. Adam Smith  
D. Max Weber

36. \_\_\_\_\_ is an economic ideology with a bundle of values including private ownership of means of production, the profit motive, free competition, and limited government restraint in markets.   
A. Capitalism  
B. Socialism  
C. Communism  
D. Democracy

37. Which of the following was an observation made by Adam Smith?   
A. Corporations are insulated from pressures holding them responsible.  
B. The desire to trade for mutual advantage lies deep in human instinct.  
C. Common people who feel disadvantaged in some way seek to take power from the ruling elite.  
D. To maintain broad public support, business must adjust to social, political, and economic forces.

38. \_\_\_\_\_\_\_\_ refers to a market economy in which the dominant businesses are large firms run by salaried managers, not smaller firms run by owner-entrepreneurs.   
A. Socialism  
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C. Marxism  
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39. Which of the following is an assumption of the market capitalism model?   
A. Government intervention in economic life is significant.  
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C. Consumers have limited knowledge about products and prices.  
D. Limited information prevents individuals from making completely rational decisions.

40. Which of the following statements about the laissez-faire concept is true?   
A. It stands for the belief that government intervention in the market is desirable.  
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C. It is necessary because market forces are benevolent.  
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C. communism  
D. totalitarianism

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48. \_\_\_\_\_ is an ideology which says that workers should revolt against property-owning capitalists who exploit them, replacing economic and political domination with more equal and democratic socialist institutions.   
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49. Which of the following models suggests that there is an exchange of power among the multiple elements in society and does not attribute constant dominance to any one element?   
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60. Which of the following is a criticism of the stakeholder model?   
A. It does not account for changes that take place in the ideas and processes of society.  
B. It generally reflects a way of looking at the BGS relationship Western nations.  
C. There is no single, clear, and objective measure to evaluate the combined ethical/economic performance of a firm.  
D. It has a negative impact on a corporation's wealth-creating function.

61. Despite its shortcomings, a compelling argument in favor of the stakeholder model is that:   
A. it isolates business from the broader society and defines the duties of a business as one of profit making.  
B. it has distinguished proponents like Adam Smith and Karl Marx.  
C. it clearly distinguishes between primary and secondary stakeholders making it easier for a corporation to satisfy each of them.  
D. it is the ethical way to manage because stakeholders have moral rights that grow from the way powerful corporations affect them.

62. \_\_\_\_ refers to actions taken by managers to adapt a company to changes in its market and sociopolitical environments.   
A. Organizational development  
B. Strategic management  
C. Social activism  
D. Value migration

63. All of the following statements are true about theories EXCEPT that:   
A. they simplify and organize areas of knowledge.  
B. they integrate entire fields of knowledge.  
C. they are statements or visions that create insight.  
D. they are important in every field.

64. \_\_\_\_\_ is a statement or vision that creates insight by describing patterns or relationships in a diffuse subject matter.   
A. idea  
B. value  
C. theory  
D. postulate

65. The study of phenomena that move through time is called \_\_.   
A. history  
B. ideology  
C. time slip  
D. horology

**Short Answer Questions**

66. Define "business".

67. What is meant by "managerial capitalism"?

68. What is Marxism?

69. Define the term "stakeholders".

70. What is strategic management?

**Essay Questions**

71. What is a society? Discuss its elements.

72. Discuss how institutions support markets.

73. Discuss the importance of the BGS field.

74. Discuss the market capitalism model and explain how it differs from the dominance model.

75. Describe the dominance model.

76. What is the countervailing forces model in the BGS relationship?

77. What conclusions can be drawn from the countervailing forces model in the BGS relationship?

78. Discuss the stakeholder model of the BGS relationship.

79. What is the difference between primary and secondary stakeholders? Give examples.

80. Discuss the arguments against the stakeholder model.

The Study of Business, Government, and Society Answer Key

**True / False Questions**

1. The business-government-society (BGS) field is the study of this environment and its importance for managers.   
**TRUE**

2. The primary purpose of a business is to make a profit by providing products that satisfy human needs.   
**TRUE**

3. The structures and processes in a society that make and apply policies and rules are called businesses.   
**FALSE**

4. An enduring belief about which basic choices in a society are "correct" is called an idea.   
**FALSE**

5. Institutions are formal patterns of relations that link people together to accomplish a goal.   
**TRUE**

6. A business uses society's resources to create new wealth.   
**TRUE**

7. The public generally believes that a business has social responsibilities beyond merely making a profit.   
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C. Social activism  
D. Value migration

63. All of the following statements are true about theories EXCEPT that:   
A. they simplify and organize areas of knowledge.  
**B.** they integrate entire fields of knowledge.  
C. they are statements or visions that create insight.  
D. they are important in every field.

64. \_\_\_\_\_ is a statement or vision that creates insight by describing patterns or relationships in a diffuse subject matter.   
A. idea  
B. value  
**C.** theory  
D. postulate

65. The study of phenomena that move through time is called \_\_.   
**A.** history  
B. ideology  
C. time slip  
D. horology

**Short Answer Questions**

66. Define "business".

Business is defined as a profit-making activity that provides products and services to satisfy human needs. It is a broad term encompassing a range of actions and institutions. It covers management, manufacturing, finance, trade, service, investment and other activities.

67. What is meant by "managerial capitalism"?

Managerial capitalism is a market economy in which the dominant businesses are large firms run by salaried managers, not smaller firms run by owner-entrepreneurs.

68. What is Marxism?

Marxism is an ideology which says that workers should revolt against property owning capitalists who exploit them, replacing economic and political domination with more equal and democratic socialist institutions.

69. Define the term "stakeholders".

A stakeholder is an entity that is benefited or burdened by the actions of a corporation or whose actions may benefit or burden the corporation. The corporation has an ethical duty toward these entities.

70. What is strategic management?

Strategic management refers to the actions taken by managers to adapt a company to changes in its market and sociopolitical environments.

**Essay Questions**

71. What is a society? Discuss its elements.

A society is a cooperative network of human relations, organized by flows of power and relatively distinct in its boundaries from other, analogous networks. Every society includes three interacting elements: (1) ideas, (2) institutions, and (3) material things.  
Ideas are intangible objects of thought that include values and ideologies. Values are enduring beliefs about which fundamental choices in personal and social life are correct. Ideologies are bundles of values that create a worldview. They establish the meaning of life or categories of experience by defining what is considered good, true, right, beautiful, and acceptable.  
Institutions are formal patterns of relations that link people to accomplish a goal. In modern societies, economic, political, cultural, legal, religious, military, educational, media, and familial institutions are salient. There are multiple economic institutions such as financial institutions, the corporate form, and markets. Collectively, these are called businesses.  
The third element in society is material things, including land, natural resources, infrastructure, and manufactured goods. Economic institutions, together with the extent of resources, largely determine the type and quantity of society's material goods.

72. Discuss how institutions support markets.

Institutions are formal patterns of relations that link people to accomplish a goal. They are essential to coordinate the work of individuals having no direct relationship with each other. In modern societies, economic, political, cultural, legal, religious, military, educational, media, and familial institutions are salient. There are multiple economic institutions such as financial institutions, the corporate form, and markets. Collectively, we call these businesses. Each of these institutions is discussed below.  
  
A. Political: Make economic policy, collect taxes, provide social safety nets, check and balance business power.  
B. Regulatory: Protect the public and investors from dishonesty, danger, and fraud.  
C. Judicial: Protect property rights, encourage investment by making dispute resolution predictable.  
D. Financial: Mobilize capital for saving, borrowing, and lending.  
E. Corporations: Combine capital and labor, encourage risk by limiting liability, and have continuity beyond individual lives.  
F. Media: Inform the public and stimulate commerce with advertising.  
G. Cultural: Impart values, habits, and norms in family, religious, or educational institutions.

73. Discuss the importance of the BGS field.

To succeed in meeting its objectives, a business must be responsive to both its economic and its noneconomic environment. There are powerful nonmarket forces to which many businesses, especially large ones, are exposed. Recognizing that a company operates not only within markets but also within a society is critical. If the society, or one or more powerful elements within it, fails to accept a company's actions, that firm will be punished and constrained. Put philosophically, a basic agreement or social contract exists between economic institutions and other networks of power in a society. This contract establishes the general duties that business must fulfill to retain the support and acquiescence of the others as it organizes people, exploits nature, and moves markets. It is partly expressed in law, but it also resides in social values. The social contract codifies the expectations of society, and managers who ignore, misread, or violate it court disaster.

74. Discuss the market capitalism model and explain how it differs from the dominance model.

The market capitalism model depicts businesses as operating within a market environment, responding primarily to powerful economic forces where it is substantially sheltered from direct impact by social and political forces. The market acts as a buffer between business and non-market forces. The model incorporates important assumptions such as called laissez-faire. Another assumption is that individuals can own private property and freely risk investments.  
The dominance model represents primarily the perspective of business critics. In it, business and government dominate the great mass of people. Proponents believe that corporations are insulated from pressures holding them responsible, that regulation by a government in thrall to big business is feeble and that market forces are inadequate to ensure ethical management.

75. Describe the dominance model.

According to the dominance model, business and government dominate the great mass of people. Those who subscribe to the model believe that corporations and a powerful elite control a system that enriches a few at the expense of the many. Such a system is undemocratic. Proponents of the dominance model believe that corporations are insulated from pressures holding them responsible, that regulation by a government in thrall to big business is feeble, and that market forces are inadequate to ensure ethical management. Unlike other models, the dominance model does not represent an ideal in addition to a description of how things are.

76. What is the countervailing forces model in the BGS relationship?

The countervailing forces model depicts the BGS relationship as a flow of interactions among the major elements of society. It suggests complex exchanges of influence among them, attributing dominance to none. This is a model of multiple or pluralistic forces. Their strength varies depending on factors such as the subject at issue, the power of competing interests, the intensity of feeling, and the influence of leaders. This model reflects the BGS relationship in industrialized nations with democratic traditions. It differs from the market capitalism model, because it opens business directly to influence by non-market forces.

77. What conclusions can be drawn from the countervailing forces model in the BGS relationship?

The major conclusions that can be drawn from the countervailing forces model are:  
  
A. Business is deeply integrated into an open society and must respond to many forces, both economic and noneconomic. It is not isolated from any part of society, nor is it always dominant.  
B. Business is a major force acting on government, the public, and environmental factors. Business often defeats labor, wins political battles, and shapes public opinion. It consumes natural resources.  
C. To maintain broad public support, business must adjust to social, political, and economic forces it can influence but not control.  
D. BGS relationships evolve as changes take place in the ideas, institutions, and processes of society.

78. Discuss the stakeholder model of the BGS relationship.

The stakeholder model shows the corporation at the center of an array of relationships with persons, groups, and entities called stakeholders. Stakeholders are those whom the corporation benefits or burdens by its actions and those who benefit or burden the firm with their actions. A large corporation has many stakeholders. Depending on the corporation, a few stakeholders may shift from one category to the other.

79. What is the difference between primary and secondary stakeholders? Give examples.

Primary stakeholders are those for which the impact to the relationship with the corporation is mutually immediate, continuous, and powerful. Stockholders, customers, employees, communities, and governments are examples of primary stakeholders.  
Secondary stakeholders are those for which the relationship is less immediate. Examples include activists, trade associations, politicians, and schools.

80. Discuss the arguments against the stakeholder model.

Critics argue that the stakeholder model is an unrealistic assessment of power relationships between the corporation and other entities. It seeks to give power to the powerless by replacing force with ethical duty. In addition, it sets up too vague a guideline to substitute for the yardstick of pure profit. Unlike traditional criteria such as return on capital, there is no single, clear, and objective measure to evaluate the combined ethical/economic performance of a firm. In addition, the interests of stakeholders so vary that often they conflict with shareholders and with one another. With respect to corporate actions, laws and regulations protect stakeholder interests. If a new conception of capitalism redistributes decision-making power and resources to stakeholders it can only impair the efficiency of the firm in maximizing both profits and social benefits.