

## CHAPTER

# 3

# Business Law and Ethics

## Section 3.1

## Legal Environment



How is the US government involved in business activities?

### Objectives

After studying this section, you will be able to:

- **Describe** the purpose of contracts.
- **Discuss** the role of the legal system in business.
- **Explain** workplace laws and regulations.
- **Identify** laws and regulations that protect consumers.

## Section 3.1 Review

### Check Your Understanding

1. List the required elements of a legal contract.  
**Answer:** Offer, consideration, acceptance, and intention of legal consequences.
2. Identify the types of laws and regulations that apply to every business, regardless of type or size.  
**Answer:** Fair competition, e-commerce, business finance, and environmental protection laws and regulations.
3. Which governmental agency enforces federal laws regarding human health and the environment?  
**Answer:** The Environmental Protection Agency (EPA).
4. What personal characteristics does the EEOC use to define discrimination against a job applicant or employee?  
**Answer:** It is illegal to discriminate against a job applicant or employee because of the person's race, ethnicity, religion, gender, national origin, age, disability, or genetic information.

5. List the eight basic consumer rights that are stated in the Consumer Bill of Rights.

**Answer:** The right to safety, to be informed, to choose freely, to be heard, to satisfy basic needs, to redress, to consumer education, and to a healthy environment.

## Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

contract

**Answer:** Legally binding agreement between two or more people or businesses.

offer

**Answer:** Element of a contract that is a proposal to provide a good or service.

acceptance

**Answer:** Element of a contract stating that all parties involved must agree to the terms of contract.

consideration

**Answer:** Element of a contract stating that something of value must be promised in return.

capacity

**Answer:** A person is legally able to enter into a binding agreement.

contract law

**Answer:** Regulates how contracts are written, executed, and enforced.

breach of contract

**Answer:** When one or more parties do not follow the agreed terms of a contract without having a legitimate reason.

sales and service contract

**Answer:** Lists the goods or services provided by a business and the price the customer paid in exchange.

lease

**Answer:** Contract to rent something.

employment contract

**Answer:** Describes the terms of employment between a business and an employee.

employer identification number (EIN)

**Answer:** Number assigned by the IRS for businesses to use when preparing income tax returns and forms.

Consumer Bill of Rights

**Answer:** Basic expectations of fair treatment of consumers.

recall

**Answer:** Order to remove or repair unsafe products in the market.

## Section 3.2

# Ethics and Social Responsibility



In what ways do businesses demonstrate ethics and social responsibility?

### Objectives

After studying this section, you will be able to:

- **Explain** how businesses encourage ethical behavior.
- **Discuss** the actions businesses take to promote social good.

## Section 3.2 Review

### Check Your Understanding

1. What are *business ethics*?

**Answer:** Business ethics are principles that help define appropriate behavior in a business setting.

2. List the questions that can be used to analyze if an action is ethical.

**Answer:** Is the action legal? Will the privacy and confidentiality of the company be protected? Who is affected by these actions? Is the information presented factual and honest?

3. What is the purpose of a confidentiality agreement?

**Answer:** A confidentiality agreement typically states that the employee will not share any company information with those outside the company. Confidentiality agreements can also prevent former employees from working for a competitor for a specified length of time.

4. Which governmental agency enforces laws that uphold truth in advertising?

**Answer:** The Federal Trade Commission (FTC).

5. Explain how businesses benefit from giving back to the community.

**Answer:** Giving back to the community creates goodwill for a business. Providing jobs for local people helps keep the community employment rate stable and strengthens the local economy.

### Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

ethics

**Answer:** Rules of behavior based on a group's ideas about what is right and wrong.

integrity

**Answer:** Honesty of a person's actions.

morals

**Answer:** Individual's ideas of what is right and wrong.

code of ethics

Answer: Document that dictates how business should be conducted.

code of conduct

Answer: Handbook that outlines expectations of employee behavior.

confidentiality

Answer: Specific information about a company or its employees is never shared, except with those who have clearance to receive it.

proprietary information

Answer: Any work created by company employees on the job that is owned by that company.

trade secret

Answer: Confidential information a company needs to keep private and protect from theft.

false advertising

Answer: Overstating the features and benefits of products or making false claims about them.

social responsibility

Answer: Behaving with sensitivity to social, environmental, and economic issues.

corporate social responsibility

Answer: All the actions taken by a business to promote social good.

corporate culture

Answer: How the owners and employees of a company think, feel, and act as a business.

philanthropy

Answer: Promoting the welfare of others.

## Chapter Summary

### Section 3.1 Legal Environment

- A contract is a legally binding agreement between two or more people or businesses. Business contracts protect the interests of the business and help to ensure all parties perform as expected.
- An important function of government is regulating certain business activities. Many federal and state laws reinforce honest business practices and financial responsibility. Local, state, and federal governmental agencies and departments all play a role in enforcing business operation regulations.
- All businesses in the United States are required to protect employees and treat them fairly. The US Department of Labor (DOL) works with many other governmental agencies to enforce workplace laws and regulations and protect employees.
- The government protects consumers from unfair and unsafe business practices and products. The Consumer Bill of Rights describes basic expectations of fair treatment of consumers.

### Section 3.2 Ethics and Social Responsibility

- Ethics are rules of behavior based on ideas about what is right and wrong. **Business ethics** are principles that help define appropriate behavior in a business setting. Businesses are expected to demonstrate ethical behavior and practices even when governmental regulations do not apply. Businesses encourage ethical behavior by creating a code of ethics and a code of conduct.

- Social responsibility is behaving with sensitivity to social, environmental, and economic issues. Corporate social responsibility includes all the actions taken by a business to promote social good. Businesses have a responsibility to support their communities and to have a positive impact on society.

## Review Your Knowledge

1. Describe the purpose of contracts.

**Answer:** A contract is a legally binding agreement between two or more people or businesses. Contracts are used in many areas of business and professional activities. The purpose of a contract is to formalize an agreement between the business and another party.

2. Explain the role of the legal system in business.

**Answer:** In addition to enforcing legal contracts, an important activity performed by government is regulating certain business activities. Many federal and state laws reinforce honest business practices and financial responsibility. The US legal system may become involved in enforcing business laws and deciding the action that should be taken. Local, state, and federal government agencies and departments all play a role in enforcing business operation regulations.

3. List four areas of business that are regulated by environmental protection laws.

**Answer:** The United States has laws regulating (any four) toxic chemicals released by industrial businesses, importing and exporting materials that pose a risk to the environment, handling and removal of asbestos, vehicle emissions, use of pesticides, and quality of drinking water.

4. List three ways that workplace laws protect employees.

**Answer:** Workplace laws enforce fair-wage laws and work-hours, prevent discrimination and harassment in the workplace, and ensure employee safety.

5. Identify two of the governmental agencies that work to protect consumers.

**Answer:** The US Consumer Product Safety Commission (CPSC) is a government agency in charge of protecting consumers from products that pose unreasonable risks of injury or death. The Federal Trade Commission (FTC) works to prevent unfair competition and deceptive acts or practices in business.

6. What are some ways in which businesses encourage ethical behavior from employees?

**Answer:** Many businesses encourage ethical behavior by creating a code of ethics and a code of conduct. They also establish confidentiality and communication guidelines for employees to follow.

7. List several examples of behavior that may be found in a code of conduct.

**Answer:** A code of conduct may mandate that office equipment should not be used for personal business; negative comments should not be made about the company or employees; Internet access provided by the company should be used for business purposes only; and checking personal e-mail and shopping online by employees is not acceptable.

8. What is the difference between the focus of a code of ethics and the focus of a code of conduct?

**Answer:** A code of ethics focuses on how business should be conducted while a code of conduct dictates expectations of employee behavior while at work or representing the company.

9. What questions can be asked to measure whether an action is socially responsible?

**Answer:** Has confidentiality been honored? Is the privacy of the company protected? Is the information presented factual and honest? Are any negative comments stated or implied about social issues? Does the message include any personal opinions about social responsibility?

10. What actions can businesses take to promote social good?

**Answer:** Organizations must be sensitive to the world around them. Negative communication about society or the environment reflects negatively on the company. Businesses have a responsibility to support their communities and to have a positive impact on society. Protecting natural resources or donating money or products are examples of ways businesses give back to society. Providing jobs for local people helps keep the community employment rate stable and strengthens the local economy. Philanthropy is promoting the welfare of others. Businesses usually practice philanthropy through volunteering, protecting resources, or donating money or products. Many businesses support a charity, social cause, or community organization.

## Apply Your Knowledge

1. Review the eight items listed in the Consumer Bill of Rights. Describe how businesses support these rights for their customers.

**Answer:** Student answers will vary. Evaluate each response individually.

2. The EPA enforces laws that regulate air and water pollutants emitted by businesses. Which businesses in your community need to be mindful of these particular laws? Explain the goods or services the businesses provide. How are the pollutants created?

**Answer:** Student answers will vary. Evaluate each response individually.

3. Write an essay contrasting ethical, moral, and legal choices that relate to the decision-making process in business situations. Provide examples that distinguish between ethical and unethical business practices.

**Answer:** Student answers will vary. Evaluate each response individually.

4. Socially responsible businesses are civic-minded and work with the community in many different ways. Identify a business in your area that actively supports the local community. Explain how the business demonstrates this type of social responsibility.

**Answer:** Student answers will vary. Evaluate each response individually.

5. Like the code of conduct handbook in a workplace, schools have a code of conduct that applies to students. This may include an honor code, behavior policy, and other policies that apply to conduct and ethical behavior. Identify and describe three policies at your school that apply to student conduct. How do students benefit from following the policies you identified? How does the school community benefit from the policies?

**Answer:** Student answers will vary. Evaluate each response individually.



## You Do the Math

### Algebraic Reasoning

In algebra, letters stand in place of unknown numbers. These letters are called *variables*. When a variable appears with numbers and signs for adding, subtracting, multiplying, or dividing, the expression is called a *variable expression*. For example,  $x + 5$  is a variable expression.

#### Solve the following problems.

1. Macy budgets \$25 a week for office refreshments. Sometimes, the amount she spends each week is less than \$25. Write a variable expression to calculate the amount of money left over after a given week.  
**Answer:**  $\$25 - x = \text{remaining money}$
2. Trey sells advertising space in the local newspaper. The price for an ad is based on how many inches of vertical space it fills, and the rate is \$2.37 per inch. Write a variable expression to calculate the price of ad space.  
**Answer:**  $\$2.37 \times x = \text{total price}$
3. Mariana orders \$350 worth of office equipment from a single supplier each month. Payment for the order is made in a single payment or is sometimes divided into equal smaller payments. Write a variable expression to calculate equal payment amounts for the office equipment order.  
**Answer:**  $\$350 / x = \text{equal payment amount}$