***Compensation, 13e* (Gerhart)**

**Chapter 1 The Pay Model**

1) Which of the following programs introduced by Congress includes restrictions on executive pay that are designed to discourage executives from taking "unnecessary and excessive risks"?

A) Corporate Welfare Program

B) Employee Welfare Program

C) Troubled Asset Relief Program

D) Corporate Liability Relief Program

Answer: C

Difficulty: 1 Easy

Topic: Compensation: Does It Matter? (or, "So What?")

Accessibility: Keyboard Navigation

2) \_\_\_\_\_\_\_\_ is defined as employee belief that returns and/or rewards are due regardless of individual or company performance.

A) Entitlement

B) Ability

C) Compliance

D) Motivation

Answer: A

Difficulty: 1 Easy

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

3) 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.

Answer: C

Difficulty: 2 Medium

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

4) 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.

Answer: B

Difficulty: 1 Easy

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

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

A) A short-term incentive

B) Employment security

C) A long-term incentive

D) Income protection

Answer: B

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

A) Base pay

B) A long-term incentive

C) Merit pay

D) A short-term incentive

Answer: C

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

7) 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

Answer: A

Difficulty: 3 Hard

Topic: Forms of Pay

Accessibility: Keyboard Navigation

8) Which form of pay does NOT permanently increase labor costs?

A) Incentives

B) Merit pay

C) Cost-of-living adjustments

D) Base pay

Answer: A

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

9) Which of the following is true of incentives?

A) They reward past behavior to influence future behavior.

B) They are linked to subjective performance measures.

C) They permanently increase labor costs.

D) They are re-earned each pay period.

Answer: D

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

10) 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

Answer: A

Difficulty: 3 Hard

Topic: Forms of Pay

Accessibility: Keyboard Navigation

11) Variable pay may also be called

A) relational returns.

B) pensions.

C) stock options.

D) incentives.

Answer: D

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

A) Base pay

B) Stock options

C) Merit pay

D) Perks

Answer: B

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

13) 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.

Answer: C

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

14) 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.

Answer: B

Difficulty: 3 Hard

Topic: Forms of Pay

Accessibility: Keyboard Navigation

15) 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.

Answer: D

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

16) 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.

Answer: A

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

A) Fairness

B) Competitiveness

C) Contributions

D) Alignment

Answer: A

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

A) Ethics

B) Competitiveness

C) Efficiency

D) Fairness

Answer: B

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

A) Merit bonuses

B) Merit increases

C) Employee contributions

D) Relational returns

Answer: C

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

A) External competitiveness

B) Internal alignment

C) Compliance

D) A merit increase

Answer: B

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

21) 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

Answer: C

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

22) 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.

Answer: D

Difficulty: 2 Medium

Topic: A Pay Model

Accessibility: Keyboard Navigation

23) 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

Answer: B

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

24) 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

Answer: C

Difficulty: 2 Medium

Topic: A Pay Model

Accessibility: Keyboard Navigation

25) 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

Answer: B

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

A) Employee contributions

B) Internal alignment

C) External competitiveness

D) Management

Answer: A

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

27) 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

Answer: D

Difficulty: 2 Medium

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

28) 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.

Answer: C

Difficulty: 2 Medium

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

29) 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.

Answer: C

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

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

A) Procedural fairness

B) Relational return

C) Regression analysis

D) Internal alignment

Answer: A

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

31) When unemployment increases, the proportion of the population covered by health insurance decreases.

Answer: TRUE

Difficulty: 1 Easy

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

33) Base wage is the overtime pay given to employees who are exempt from regulations of the Fair Labor Standards Act.

Answer: FALSE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

34) Commissions are an example of incentives.

Answer: TRUE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

35) Most U.S. firms use merit pay increases.

Answer: TRUE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

38) Unlike for merit adjustments, the potential size of an incentive payment will generally be known before receiving the payment.

Answer: TRUE

Difficulty: 1 Easy

Topic: Forms of Pay

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

44) Since HR research contains information useful to managers, most managers read research in HR management and compensation journals.

Answer: FALSE

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

48) 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.

Answer: FALSE

Difficulty: 1 Easy

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

50) 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.

Answer: FALSE

Difficulty: 1 Easy

Topic: Caveat Emptor—Be an Informed Consumer

Accessibility: Keyboard Navigation

51) Describe the perspective of stockholders on compensation.

Answer: Stockholders are interested in how employees are paid. Some believe that using stock to pay employees creates a sense of ownership that improves performance and increases stockholder wealth. However, others argue that granting employees too much ownership dilutes stockholder wealth.

Stockholders have a particular interest in executive pay. The interests of executives are aligned with those of shareholders who hope that company performance will be higher.

Difficulty: 2 Medium

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

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

Answer: 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.

Difficulty: 2 Medium

Topic: Compensation: Definition, Please

Accessibility: Keyboard Navigation

53) Describe the various returns received from work.

Answer: 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.

Difficulty: 2 Medium

Topic: Forms of Pay

Accessibility: Keyboard Navigation

54) List the basic elements of the pay model.

Answer: 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

Difficulty: 1 Easy

Topic: A Pay Model

Accessibility: Keyboard Navigation

55) Explain the basic compensation objectives of pay systems.

Answer: 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.

Difficulty: 2 Medium

Topic: A Pay Model

Accessibility: Keyboard Navigation