

Student: _____

1. A merit increase is best described as:
 - A. an incentive that recognizes past performance.
 - B. an inducement for achieving long-term organizational objectives.
 - C. a one-time reward for past performance that does not increase base pay.
 - D. an increase that is exempt from the regulations of the Canada Labour Code.
 - E. a promise of future payments.
2. A comparison of earnings of women with those of men highlights what many consider:
 - A. inequities in pay decisions.
 - B. external pay equity.
 - C. equity theory of motivation.
 - D. comparative wage principle.
 - E. supplemental pay benefit.
3. The following are forms of pay except:
 - A. base wage.
 - B. incentives.
 - C. merit.
 - D. benefits.
 - E. administration.
4. Pay for executives is supposed to be tied to the:
 - A. external pay equity theory.
 - B. financial performance of the company.
 - C. cost of living index.
 - D. industry-wide norm.
 - E. piece-rate production plan.
5. Compensation research can be evaluated on the basis of its:
 - A. cost effectiveness.
 - B. contingency.
 - C. performance.
 - D. alternative explanations.
 - E. quality and relevance.
6. The point of looking at the definition of compensation in other languages, especially in Japan, is to understand that compensation takes care of:
 - A. stakeholders of the business.
 - B. stockholder returns.
 - C. employees' financial needs.
 - D. suppliers in the chain.
 - E. customers in the target market.
7. All of the following are characteristics of base pay except:
 - A. pay that reflects past work behaviours and accomplishments.
 - B. pay that reflects the value of work itself.
 - C. basic work compensation that an employee pays for work performed.
 - D. pay calculated at an hourly rate.
 - E. a bonus paid for a special holiday.

8. Incentives are:
 - A. rewards that induces performance.
 - B. rewards of past work behaviours and accomplishments.
 - C. long-term and short-term.
 - D. rewards that induces performance and long-term and short-term.
 - E. paid as a flat rate.
9. Which of the following is NOT included in the definition of compensation?
 - A. Paid vacation
 - B. Health insurance
 - C. Promotions
 - D. Cost of living adjustments
 - E. Merit pay
10. Internal alignment may be achieved by:
 - A. making cost of living adjustments.
 - B. matching competitors' wage rates.
 - C. paying below-market base wages but offering training and rapid promotion.
 - D. matching outside job offers employees receive from other organizations.
 - E. paying on the basis of similarities among jobs within a firm.
11. Which of the following relationships within a pay system is accurate?
 - A. Compensation objectives shape pay policies.
 - B. Pay policies determine the objectives of the pay system.
 - C. Organization strategies determine employee needs.
 - D. Pay policies form the compensation strategy of the organization.
 - E. External competitiveness is the sole determinant of employee pay.
12. An incentive payment:
 - A. will increase base wages in future years.
 - B. is nontaxable and therefore highly preferred by employees.
 - C. may be made at the beginning of a quarter for expected performance during that quarter.
 - D. can be based on individual or group performance.
 - E. all of the answers are correct.
13. The most effective compensation mix for an organization is:
 - A. increasing base wage with seniority.
 - B. there is no single mix which is best for all organizations.
 - C. maintaining or decreasing base wage as benefits increase.
 - D. roughly equal distribution between financial and non-financial compensation.
 - E. significantly higher financial compensation, relative to non-financial compensation.
14. Programs that help employees better integrate their work and life responsibilities include time away from work, access to services to meet specific needs, and flexible work arrangements. These programs are referred to as:
 - A. long-term incentives.
 - B. merit pay.
 - C. total earnings opportunities.
 - D. work/life focus benefits.
 - E. income protection benefits.
15. Which policies form the building blocks, the foundation on which pay systems are built?
 - A. Internal alignment
 - B. External competitiveness
 - C. Employee contributions
 - D. Administration of the pay system
 - E. All of the answers are correct.

16. Telling students they must answer half the questions in this exam correctly in order to pass this course is similar to which form of compensation?
- A. Merit pay
 - B. Base wage
 - C. Compensation
 - D. Incentives
 - E. Benefits
17. External competitiveness refers to:
- A. employee contributions.
 - B. the relative importance of jobs within an employer.
 - C. internal consistency.
 - D. compensation paid by competitors.
 - E. inflationary pressure.
18. The compensation objective of compliance refers to:
- A. controlling labour costs.
 - B. complying with common accounting procedures.
 - C. complying with product quality standards.
 - D. complying with relevant regulations and laws.
 - E. comparing the total wage bill to the estimated wage bills of competitors.
19. Stockholders generally pay particular attention to what aspect of pay?
- A. Executive compensation
 - B. Internal consistency
 - C. Benefits
 - D. Administration
 - E. Base wage
20. The pay policy that is typically established through a sequence that starts with the analysis of the work done and the people needed to do it is called a (an):
- A. performance-based increase.
 - B. incentive plan.
 - C. employee stock option.
 - D. internal alignment.
 - E. external competitiveness.
21. The basic cash compensation that an employer pays for the work performed is called:
- A. merit pay.
 - B. base wage.
 - C. compensation.
 - D. incentives.
 - E. None of the answers are correct.
22. The relative output for each dollar of pay is called:
- A. performance-based pay.
 - B. supplemental pay benefits.
 - C. productivity.
 - D. job evaluation.
 - E. performance appraisal.
23. Employees may:
- A. vary in their preferences for forms of pay.
 - B. also be stockholders.
 - C. weight the psychological returns of work as equal to the financial returns.
 - D. view pay as a stream of earnings.
 - E. All of the answers are correct.

24. When assessing the worth of a study related to compensation theory it is important to ask:
- A. "Does the research measure anything useful?"
 - B. "Does the study separate correlation from causation?"
 - C. "Are there alternative explanations?"
 - D. "Does the research measure anything useful?" and "Are there alternative explanations?" .
 - E. All of the answers are correct.
25. Which pay form would best be described as a return, rather than a reward?
- A. Base wage
 - B. Merit pay
 - C. Short term incentive
 - D. Sales commission
 - E. Promotion
26. The pay model directs attention to the issue of WHY techniques are chosen and policies are implemented.
True False
27. An opportunity to work with compatible colleagues is an indirect compensation form.
True False
28. Pay objectives serve as the basis for evaluating the effectiveness of the pay system.
True False
29. External competitiveness implies paying employees a wage equal to or greater than the wages paid by competitors in the external labour market.
True False
30. Cost of living adjustments are elements of indirect compensation.
True False
31. Incentives may be long-term or short-term.
True False
32. The pay policy decision most closely concerned with job content is internal consistency.
True False
33. Procedural fairness is the fairness of the process used to make a decision.
True False
34. Pay administration includes monitoring and evaluating the effectiveness of recruiting techniques.
True False
35. Compared to Europe and Japan, labour costs in the Canada are significantly higher.
True False
36. Employee services and allowances are a direct form of compensation.
True False
37. Merit pay is a reward that influences performance by offering pay as an inducement.
True False
38. The focus of internal consistency is on comparing jobs and skills in terms of their relative contributions to the organization's objectives.
True False
39. Asking the manager who developed a compensation plan whether the plan works is a poor measure of the plan's effect on organization performance.
True False

40. The concept of compensation frequently reflects a country's history, culture, and demography.
True False
41. To stockholders, why is executive pay in Canada of such special interest? _____.
42. Every manager should view compensation in two ways. What are they?
43. What form of pay recognizes past work behaviours and accomplishments?
44. List the three basic objectives of a compensation system used in the model.
45. List two of the major forms of pay and give an example of it.
46. What are the differences between merit pay and incentives? Why might you choose one or the other?

47. Why does the notion of a "present value of a stream of earnings" have relevance for compensation?

48. Why do the textbook authors believe strategic compensation objectives are important?

1 Key

1. A merit increase is best described as:
(p. 4) **A.** an incentive that recognizes past performance.
B. an inducement for achieving long-term organizational objectives.
C. a one-time reward for past performance that does not increase base pay.
D. an increase that is exempt from the regulations of the Canada Labour Code.
E. a promise of future payments.

*Level of Difficulty: M
Milkovich - Chapter 01 #1*

2. A comparison of earnings of women with those of men highlights what many consider:
(p. 2) **A.** inequities in pay decisions.
B. external pay equity.
C. equity theory of motivation.
D. comparative wage principle.
E. supplemental pay benefit.

*Level of Difficulty: D
Milkovich - Chapter 01 #2*

3. The following are forms of pay except:
(p. 3) A. base wage.
B. incentives.
C. merit.
D. benefits.
E. administration.

*Level of Difficulty: E
Milkovich - Chapter 01 #3*

4. Pay for executives is supposed to be tied to the:
(p. 4) A. external pay equity theory.
B. financial performance of the company.
C. cost of living index.
D. industry-wide norm.
E. piece-rate production plan.

*Level of Difficulty: M
Milkovich - Chapter 01 #4*

5. Compensation research can be evaluated on the basis of its:
(p. 3) A. cost effectiveness.
B. contingency.
C. performance.
D. alternative explanations.
E. quality and relevance.

*Level of Difficulty: M
Milkovich - Chapter 01 #5*

6. The point of looking at the definition of compensation in other languages, especially in Japan, is to
(p. 3) understand that compensation takes care of:
A. stakeholders of the business.
B. stockholder returns.
C. employees' financial needs.
D. suppliers in the chain.
E. customers in the target market.

*Level of Difficulty: M
Milkovich - Chapter 01 #6*

7. All of the following are characteristics of base pay except:
(p. 4) **A.** pay that reflects past work behaviours and accomplishments.
B. pay that reflects the value of work itself.
C. basic work compensation that an employee pays for work performed.
D. pay calculated at an hourly rate.
E. a bonus paid for a special holiday.

*Level of Difficulty: M
Milkovich - Chapter 01 #7*

8. Incentives are:
(p. 4, 5) A. rewards that induces performance.
B. rewards of past work behaviours and accomplishments.
C. long-term and short-term.
D. rewards that induces performance and long-term and short-term.
E. paid as a flat rate.

*Level of Difficulty: E
Milkovich - Chapter 01 #8*

9. Which of the following is NOT included in the definition of compensation?
(p. 4) A. Paid vacation
B. Health insurance
C. Promotions
D. Cost of living adjustments
E. Merit pay

*Level of Difficulty: M
Milkovich - Chapter 01 #9*

10. Internal alignment may be achieved by:
(p. 10) A. making cost of living adjustments.
B. matching competitors' wage rates.
C. paying below-market base wages but offering training and rapid promotion.
D. matching outside job offers employees receive from other organizations.
E. paying on the basis of similarities among jobs within a firm.

*Level of Difficulty: M
Milkovich - Chapter 01 #10*

11. Which of the following relationships within a pay system is accurate?
(p. 10) **A.** Compensation objectives shape pay policies.
B. Pay policies determine the objectives of the pay system.
C. Organization strategies determine employee needs.
D. Pay policies form the compensation strategy of the organization.
E. External competitiveness is the sole determinant of employee pay.

*Level of Difficulty: M
Milkovich - Chapter 01 #11*

12. An incentive payment:
(p. 4) A. will increase base wages in future years.
B. is nontaxable and therefore highly preferred by employees.
C. may be made at the beginning of a quarter for expected performance during that quarter.
D. can be based on individual or group performance.
E. all of the answers are correct.

*Level of Difficulty: M
Milkovich - Chapter 01 #12*

13. The most effective compensation mix for an organization is:
(p. 4) A. increasing base wage with seniority.
B. there is no single mix which is best for all organizations.
C. maintaining or decreasing base wage as benefits increase.
D. roughly equal distribution between financial and non-financial compensation.
E. significantly higher financial compensation, relative to non-financial compensation.

*Level of Difficulty: D
Milkovich - Chapter 01 #13*

14. Programs that help employees better integrate their work and life responsibilities include time away from work, access to services to meet specific needs, and flexible work arrangements. These programs are referred to as:
- A. long-term incentives.
 - B. merit pay.
 - C. total earnings opportunities.
 - D.** work/life focus benefits.
 - E. income protection benefits.

*Level of Difficulty: E
Milkovich - Chapter 01 #14*

15. Which policies form the building blocks, the foundation on which pay systems are built?
- (p. 10, 11) A. Internal alignment
 - B. External competitiveness
 - C. Employee contributions
 - D. Administration of the pay system
 - E.** All of the answers are correct.

*Level of Difficulty: E
Milkovich - Chapter 01 #15*

16. Telling students they must answer half the questions in this exam correctly in order to pass this course is similar to which form of compensation?
- (p. 4, 5) A. Merit pay
 - B. Base wage
 - C. Compensation
 - D.** Incentives
 - E. Benefits

*Level of Difficulty: E
Milkovich - Chapter 01 #16*

17. External competitiveness refers to:
- (p. 10) A. employee contributions.
 - B. the relative importance of jobs within an employer.
 - C. internal consistency.
 - D.** compensation paid by competitors.
 - E. inflationary pressure.

*Level of Difficulty: E
Milkovich - Chapter 01 #17*

18. The compensation objective of compliance refers to:
- (p. 8) A. controlling labour costs.
 - B. complying with common accounting procedures.
 - C. complying with product quality standards.
 - D.** complying with relevant regulations and laws.
 - E. comparing the total wage bill to the estimated wage bills of competitors.

*Level of Difficulty: E
Milkovich - Chapter 01 #18*

19. Stockholders generally pay particular attention to what aspect of pay?
- (p. 2) **A.** Executive compensation
 - B. Internal consistency
 - C. Benefits
 - D. Administration
 - E. Base wage

*Level of Difficulty: E
Milkovich - Chapter 01 #19*

20. The pay policy that is typically established through a sequence that starts with the analysis of the work done and the people needed to do it is called a (an):
(p. 10)
- A. performance-based increase.
 - B. incentive plan.
 - C. employee stock option.
 - D.** internal alignment.
 - E. external competitiveness.

*Level of Difficulty: E
Milkovich - Chapter 01 #20*

21. The basic cash compensation that an employer pays for the work performed is called:
(p. 4)
- A. merit pay.
 - B.** base wage.
 - C. compensation.
 - D. incentives.
 - E. None of the answers are correct.

*Level of Difficulty: E
Milkovich - Chapter 01 #21*

22. The relative output for each dollar of pay is called:
(p. 4, 5)
- A. performance-based pay.
 - B. supplemental pay benefits.
 - C.** productivity.
 - D. job evaluation.
 - E. performance appraisal.

*Level of Difficulty: M
Milkovich - Chapter 01 #22*

23. Employees may:
(p. 4)
- A. vary in their preferences for forms of pay.
 - B. also be stockholders.
 - C. weight the psychological returns of work as equal to the financial returns.
 - D. view pay as a stream of earnings.
 - E.** All of the answers are correct.

*Level of Difficulty: M
Milkovich - Chapter 01 #23*

24. When assessing the worth of a study related to compensation theory it is important to ask:
(p. 11)
- A. "Does the research measure anything useful?"
 - B. "Does the study separate correlation from causation?"
 - C. "Are there alternative explanations?"
 - D. "Does the research measure anything useful?" and "Are there alternative explanations?" .
 - E.** All of the answers are correct.

*Level of Difficulty: M
Milkovich - Chapter 01 #24*

25. Which pay form would best be described as a return, rather than a reward?
(p. 4)
- A.** Base wage
 - B. Merit pay
 - C. Short term incentive
 - D. Sales commission
 - E. Promotion

*Level of Difficulty: E
Milkovich - Chapter 01 #25*

26. The pay model directs attention to the issue of WHY techniques are chosen and policies are implemented.
(p. 8)
- TRUE**

*Level of Difficulty: M
Milkovich - Chapter 01 #26*

27. An opportunity to work with compatible colleagues is an indirect compensation form.
(p. 5) **FALSE**
Level of Difficulty: E
Milkovich - Chapter 01 #27
28. Pay objectives serve as the basis for evaluating the effectiveness of the pay system.
(p. 7) **TRUE**
Level of Difficulty: M
Milkovich - Chapter 01 #28
29. External competitiveness implies paying employees a wage equal to or greater than the wages paid by competitors in the external labour market.
(p. 10) **FALSE**
Level of Difficulty: M
Milkovich - Chapter 01 #29
30. Cost of living adjustments are elements of indirect compensation.
(p. 4) **FALSE**
Level of Difficulty: E
Milkovich - Chapter 01 #30
31. Incentives may be long-term or short-term.
(p. 4, 5) **TRUE**
Level of Difficulty: E
Milkovich - Chapter 01 #31
32. The pay policy decision most closely concerned with job content is internal consistency.
(p. 7) **TRUE**
Level of Difficulty: M
Milkovich - Chapter 01 #32
33. Procedural fairness is the fairness of the process used to make a decision.
(p. 8) **TRUE**
Level of Difficulty: E
Milkovich - Chapter 01 #33
34. Pay administration includes monitoring and evaluating the effectiveness of recruiting techniques.
(p. 11) **FALSE**
Level of Difficulty: M
Milkovich - Chapter 01 #34
35. Compared to Europe and Japan, labour costs in the Canada are significantly higher.
(p. 3) **FALSE**
Level of Difficulty: E
Milkovich - Chapter 01 #35
36. Employee services and allowances are a direct form of compensation.
(p. 6) **FALSE**
Level of Difficulty: E
Milkovich - Chapter 01 #36
37. Merit pay is a reward that influences performance by offering pay as an inducement.
(p. 4) **FALSE**
Level of Difficulty: M
Milkovich - Chapter 01 #37
38. The focus of internal consistency is on comparing jobs and skills in terms of their relative contributions to the organization's objectives.
(p. 10) **TRUE**
Level of Difficulty: M
Milkovich - Chapter 01 #38
39. Asking the manager who developed a compensation plan whether the plan works is a poor measure of the plan's effect on organization performance.
(p. 11) **TRUE**
Level of Difficulty: M
Milkovich - Chapter 01 #39

40. The concept of compensation frequently reflects a country's history, culture, and demography.
(p. 4) **FALSE**

*Level of Difficulty: E
Milkovich - Chapter 01 #40*

41. To stockholders, why is executive pay in Canada of such special interest? _____
(p. 2)

The financial performance of the firm is correlated to executive salaries and bonuses; and executives will benefit with a high return of invested capital.

*Level of Difficulty: M
Milkovich - Chapter 01 #41*

42. Every manager should view compensation in two ways. What are they?
(p. 2)

(1) an expense; (2) a way to influence employee behaviour and consequently organization performance

*Level of Difficulty: E
Milkovich - Chapter 01 #42*

43. What form of pay recognizes past work behaviours and accomplishments?
(p. 4)

merit

*Level of Difficulty: E
Milkovich - Chapter 01 #43*

44. List the three basic objectives of a compensation system used in the model.
(p. 8, 9)

equity or fairness; efficiency; cost control

*Level of Difficulty: M
Milkovich - Chapter 01 #44*

45. List two of the major forms of pay and give an example of it.
(p. 4)

major forms are base (which includes merit, incentives) and benefits (which includes income protection, work/life focus, allowances)

*Level of Difficulty: M
Milkovich - Chapter 01 #45*

46. What are the differences between merit pay and incentives? Why might you choose one or the other?
(p. 5)

Merit pay is determined on basis of past behaviour. Typically, it adds to base pay. Criteria for determining merit pay may be generalized, i.e., based on an overall impression.

Incentives are based on specific criteria, with the required behaviour called out ahead of time.

Advantages of incentives: They can be based on individual or group or unit performance. They can help control costs because if the criteria are not achieved (i.e., certain profit or sales level), no payment is made. Presumably criteria are related to company's financial well-being.

Advantages of merit: Because it is the most common approach, employees more likely to be familiar with it. It can fit with employee expectations of constant salary growth, useful where objectives may not be easily specified in advantage.

*Level of Difficulty: M
Milkovich - Chapter 01 #46*

47. Why does the notion of a "present value of a stream of earnings" have relevance for compensation?
(p. 6)

Hiring an employee generally implies a long-term commitment, assuming satisfactory performance and a steady state in the company's direction. Consequently, from the employer's perspective, hiring commits the company to a stream of expenses. From the employee's perspective, it makes sense to weigh not only the present financial offer, but also the opportunity for future growth and various forms of pay. Present value gets at notions of cost control as well as influencing behaviour.

*Level of Difficulty: D
Milkovich - Chapter 01 #47*

48. Why do the textbook authors believe strategic compensation objectives are important?
(p. 7)

Objectives matter for three reasons. First, they guide design and therefore provide a framework for choosing techniques. Second, they serve as standards to judge whether a compensation system is successful. For example, if equitable treatment is an objective, do employees in fact feel fairly treated? If not, why not? What are the aspects of the compensation system that they feel are unfair? Should those aspects be changed, or do managers need to do a better job of explaining that aspect and how it fits into the overall system? Third, objectives can help shape employee behaviour by communicating to them what the company is trying to accomplish and how they can help the company and increase their income at the same time.

*Level of Difficulty: D
Milkovich - Chapter 01 #48*

1 Summary

<u>Category</u>	<u># of Questions</u>
Level of Difficulty: D	4
Level of Difficulty: E	20
Level of Difficulty: M	24
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