

Chapter 01 The Pay Model

Student: _____

1. Pay for executives is supposed to be tied to the:
 - A. the company's financial performance.
 - B. the company's reputation.
 - C. the financial needs of the employee.
 - D. the company's growth potential.
 - E. the cost of living index.

2. All forms of financial returns and tangible services and benefits that employees receive as part of an employment relationship are known as _____.
 - A. compensation
 - B. total rewards
 - C. base pay
 - D. relational returns
 - E. merit pay

3. _____ refer to one-time payments for meeting previously established performance objectives.
 - A. Cost-of-living adjustments
 - B. Incentives
 - C. Merit increments
 - D. Relational returns
 - E. Allowances

4. Which of the following is NOT part of an employee's total compensation?
- A. Paid vacation
 - B. Health insurance
 - C. Promotions
 - D. Cost-of-living adjustments
 - E. Merit pay
5. A merit increase is best described as:
- A. an increment to base pay that recognizes past work behaviour.
 - B. psychological returns employees believe they receive in the workplace.
 - C. a one-time reward for past performance that does not increase base pay.
 - D. percentage increment to base pay provided to all employees regardless of performance.
 - E. compensation given to provide for items that are in short supply.
6. Which of the following best describes relational returns?
- A. All rewards received by employees, including cash compensation, benefits, and psychological returns
 - B. All forms of financial returns and tangible services that employees receive as part of an employment
 - C. Programs that help employees better integrate their work and life responsibilities
 - D. One-time payments for meeting previously established performance objectives
 - E. The psychological returns people believe they receive in the workplace

7. Which of the following refers to pay calculated at an hourly rate?
- A. Salary
 - B. Wage
 - C. Merit increase
 - D. Total reward
 - E. Compensation
8. _____ include psychological aspects of work such as recognition and status, challenging work, and learning opportunities.
- A. Cognitive returns
 - B. Relational returns
 - C. Compensational returns
 - D. Subjective returns
 - E. Qualitative returns
9. Which of the following best describes cost-of-living adjustment?
- A. One-time payments for meeting previously established performance objectives
 - B. Increment to base pay in recognition of past work behaviour
 - C. Percentage increment to base pay provided to all employees regardless of performance
 - D. Compensation to provide for items that are in short supply
 - E. Consolidated pay which is not subject to any change regardless of the cost-of-living

10. An incentive payment:

- A. is part of an employee's base wage.
- B. is non-taxable and therefore highly preferred by employees.
- C. refers to psychological returns employees believe they receive in the workplace.
- D. ties pay increases directly to an employee's performance.
- E. is made to provide for items that are in short supply.

11. _____ includes cash compensation, benefits, and relational returns.

- A. Total compensation
- B. Total cash benefit
- C. Total base pay
- D. Total reward
- E. Total incentive

12. Total compensation does NOT include:

- A. base pay.
- B. incentives.
- C. relational returns.
- D. insurance benefits.
- E. allowances

13. Which of the following pay forms is cash compensation?

- A. Financial planning
- B. Insurance
- C. Pensions
- D. Allowances
- E. Stock options

14. Which of the following best describes allowances?

- A. One-time payments for meeting previously established performance objectives
- B. Percentage increment to base pay provided to all employees regardless of performance
- C. Programs that help employees better integrate their work and life responsibilities
- D. Compensation to provide for items that are in short supply
- E. Pay calculated at an annual or monthly rate

15. Which of the following is a benefit component of total compensation?

- A. Incentives
- B. Cost-of-living adjustment
- C. Allowances
- D. Merit increase
- E. Relational returns

16. _____ refers to the compensation given to purchase items that are in short supply.

- A. Variable pay
- B. Incentive
- C. Cost-of-living adjustment
- D. Allowance
- E. Wage

17. Which of the following is a form of relational return?

- A. Life Insurance
- B. Allowances
- C. Recognition and status
- D. Monetary incentives
- E. Benefits

18. Which of the following statements is true about the forms of pay?

- A. Relational returns are more transactional than total compensation.
- B. Unlike relational returns, total compensation typically refers to the psychological returns people believe they receive in the workplace.
- C. Base pay, incentives, and cost-of-living adjustments are the typical relational returns.
- D. Merit increases refer to the same percentage increase that everyone receives regardless of performance in order to maintain pay levels relative to increases in the cost of living.
- E. Base pay tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees.

19. Which of the following is a work/life program?

- A. Stock options
- B. Health insurance
- C. Telecommuting
- D. Employment Insurance
- E. Cost-of-living adjustment

20. Which of the following is true of the present value perspective?

- A. It considers today's initial offers to employees.
- B. It considers future bonuses, merit increases, and promotions.
- C. It establishes a limit on the amount spent on benefits.
- D. It creates an external competitiveness through future promises.
- E. It assesses the present value of a company to offer stock options to employees.

21. _____ as a pay objective involves abiding by various federal, provincial, and territorial compensation laws and regulations.

- A. Fairness
- B. Efficiency
- C. Alignment
- D. Compliance
- E. Competitiveness

22. Internal alignment may be achieved by:

- A. creation of cross-functional departments.
- B. matching competitors' wage rates.
- C. paying below-market base wages but offering training and rapid promotion.
- D. compensating employees at above-market rates.
- E. comparing pay between jobs or skill levels inside a single organization.

23. Which of the following is true of internal alignment?

- A. It does not influence the company's compensation objectives.
- B. It compares pay between jobs inside a single organization.
- C. It uses incentive programs as a technique to implement the policy.
- D. It places greater emphasis on performance than the other policies.
- E. It relates to comparison of compensation with that of competitors.

24. External competitiveness refers to:

- A. competitiveness between different departments in a company.
- B. the relative importance of jobs within a company.
- C. comparison of product prices with that of competitors.
- D. comparison of compensation with that of competitors.
- E. inflationary pressure caused by external market factors.

25. Which of the following pay policies lays emphasis on performance?

- A. Employee contributions
- B. Administration of the pay system
- C. External competitiveness
- D. Internal alignment
- E. Management

26. When executive pay is excessive relative to company performance, profits are diverted away from stockholders to the executives.

True False

27. Cost-of-living adjustment refers to percentage increment to base pay provided to employees based on their performance.

True False

28. Total rewards refer to the psychological returns employees believe they receive in the workplace.

True False

29. Merit pay is a one-time payment for meeting previously established performance objectives.

True False

30. Total compensation includes psychological aspects of work such as recognition and status, challenging work, and learning opportunities.

True False

31. Base wage is the cash compensation an employer pays for the work performed.

True False

32. Total compensation only includes salary and incentives; not benefits.

True False

33. Incentives may be long-term or short-term.

True False

34. Making contributions to Workers' Compensation is at discretion of the employer.

True False

35. Allowances are rewards given to employees based on their performance.

True False

36. Procedural fairness is the fairness of the process used to make a decision.

True False

37. Pay objectives provide standards for evaluating the effectiveness of the pay system.

True False

38. External competitiveness refers to pay comparisons between different skill levels in an organization.

True False

39. Pay relationships within the organization affect employee decisions to stay with the organization.

True False

40. While external competitiveness directly affects efficiency, it does not affect fairness.

True False

41. Why is executive pay in Canada of special interest to stockholders?

42. Why is compensation important to managers?

43. What does base wage reflect?

44. What are the two major categories of total rewards?

45. List the three basic objectives of a compensation system.

46. Explain the two major categories of total rewards.

47. What is base wage? Distinguish between a wage and a salary.

48. What are long-term incentives?

49. What are the basic building blocks of a pay model?

50. What is procedural fairness?

Chapter 01 The Pay Model **Key**

1. Pay for executives is supposed to be tied to the:

(p. 4)

- A. the company's financial performance.
- B. the company's reputation.
- C. the financial needs of the employee.
- D. the company's growth potential.
- E. the cost of living index.

Difficulty: Easy

Learning Objective: 01-01 Describe how compensation is viewed differently by society; stockholders; managers; and employees in Canada and around the world.

Milkovich - Chapter 01 #1

2. All forms of financial returns and tangible services and benefits that employees receive as part of an employment relationship are known as _____.

(p. 5)

- A. compensation
- B. total rewards
- C. base pay
- D. relational returns
- E. merit pay

Difficulty: Easy

Learning Objective: 01-02 Define the term compensation.

Milkovich - Chapter 01 #2

3. _____ refer to one-time payments for meeting previously established performance objectives.

(p. 6)

A. Cost-of-living adjustments

B. Incentives

C. Merit increments

D. Relational returns

E. Allowances

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #3

4. Which of the following is NOT part of an employee's total compensation?

(p. 6)

A. Paid vacation

B. Health insurance

C. Promotions

D. Cost-of-living adjustments

E. Merit pay

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #4

5. A merit increase is best described as:

(p. 6)

- A. an increment to base pay that recognizes past work behaviour.
- B. psychological returns employees believe they receive in the workplace.
- C. a one-time reward for past performance that does not increase base pay.
- D. percentage increment to base pay provided to all employees regardless of performance.
- E. compensation given to provide for items that are in short supply.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #5

6. Which of the following best describes relational returns?

(p. 9)

- A. All rewards received by employees, including cash compensation, benefits, and psychological returns
- B. All forms of financial returns and tangible services that employees receive as part of an employment
- C. Programs that help employees better integrate their work and life responsibilities
- D. One-time payments for meeting previously established performance objectives
- E. The psychological returns people believe they receive in the workplace

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #6

7. Which of the following refers to pay calculated at an hourly rate?

(p. 5)

- A. Salary
- B. Wage**
- C. Merit increase
- D. Total reward
- E. Compensation

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #7

8. _____ include psychological aspects of work such as recognition and status, challenging work, and learning opportunities.

(p. 5)

- A. Cognitive returns
- B. Relational returns**
- C. Compensational returns
- D. Subjective returns
- E. Qualitative returns

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #8

9. Which of the following best describes cost-of-living adjustment?

(p. 6)

- A. One-time payments for meeting previously established performance objectives
- B. Increment to base pay in recognition of past work behaviour
- C. Percentage increment to base pay provided to all employees regardless of performance
- D. Compensation to provide for items that are in short supply
- E. Consolidated pay which is not subject to any change regardless of the cost-of-living

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #9

10. An incentive payment:

(p. 6)

- A. is part of an employee's base wage.
- B. is non-taxable and therefore highly preferred by employees.
- C. refers to psychological returns employees believe they receive in the workplace.
- D. ties pay increases directly to an employee's performance.
- E. is made to provide for items that are in short supply.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #10

11. _____ includes cash compensation, benefits, and relational returns.

(p. 5)

- A. Total compensation
- B. Total cash benefit
- C. Total base pay
- D.** Total reward
- E. Total incentive

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #11

12. Total compensation does NOT include:

(p. 5)

- A. base pay.
- B. incentives.
- C.** relational returns.
- D. insurance benefits.
- E. allowances

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #12

13. Which of the following pay forms is cash compensation?

(p. 6)

- A. Financial planning
- B. Insurance
- C. Pensions
- D. Allowances
- E. Stock options

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #13

14. Which of the following best describes allowances?

(p. 7)

- A. One-time payments for meeting previously established performance objectives
- B. Percentage increment to base pay provided to all employees regardless of performance
- C. Programs that help employees better integrate their work and life responsibilities
- D. Compensation to provide for items that are in short supply
- E. Pay calculated at an annual or monthly rate

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #14

15. Which of the following is a benefit component of total compensation?

(p. 6)

- A. Incentives
- B. Cost-of-living adjustment
- C. Allowances
- D. Merit increase
- E. Relational returns

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #15

16. _____ refers to the compensation given to purchase items that are in short supply.

(p. 6)

- A. Variable pay
- B. Incentive
- C. Cost-of-living adjustment
- D. Allowance
- E. Wage

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #16

17. Which of the following is a form of relational return?

(p. 9)

- A. Life Insurance
- B. Allowances
- C. Recognition and status
- D. Monetary incentives
- E. Benefits

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #17

18. Which of the following statements is true about the forms of pay?

(p. 5)

- A. Relational returns are more transactional than total compensation.
- B. Unlike relational returns, total compensation typically refers to the psychological returns people believe they receive in the workplace.
- C. Base pay, incentives, and cost-of-living adjustments are the typical relational returns.
- D. Merit increases refer to the same percentage increase that everyone receives regardless of performance in order to maintain pay levels relative to increases in the cost of living.
- E. Base pay tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #18

19. Which of the following is a work/life program?

(p. 7)

- A. Stock options
- B. Health insurance
- C. Telecommuting**
- D. Employment Insurance
- E. Cost-of-living adjustment

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #19

20. Which of the following is true of the present value perspective?

(p. 8)

- A. It considers today's initial offers to employees.
- B. It considers future bonuses, merit increases, and promotions.**
- C. It establishes a limit on the amount spent on benefits.
- D. It creates an external competitiveness through future promises.
- E. It assesses the present value of a company to offer stock options to employees.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #20

21. _____ as a pay objective involves abiding by various federal, provincial, and territorial compensation laws and regulations.

(p. 10)

- A. Fairness
- B. Efficiency
- C. Alignment
- D. Compliance
- E. Competitiveness

Difficulty: Medium

Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.

Milkovich - Chapter 01 #21

22. Internal alignment may be achieved by:

(p. 12)

- A. creation of cross-functional departments.
- B. matching competitors' wage rates.
- C. paying below-market base wages but offering training and rapid promotion.
- D. compensating employees at above-market rates.
- E. comparing pay between jobs or skill levels inside a single organization.

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #22

23. Which of the following is true of internal alignment?

(p. 12)

- A. It does not influence the company's compensation objectives.
- B.** It compares pay between jobs inside a single organization.
- C. It uses incentive programs as a technique to implement the policy.
- D. It places greater emphasis on performance than the other policies.
- E. It relates to comparison of compensation with that of competitors.

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #23

24. External competitiveness refers to:

(p. 12)

- A. competitiveness between different departments in a company.
- B. the relative importance of jobs within a company.
- C. comparison of product prices with that of competitors.
- D.** comparison of compensation with that of competitors.
- E. inflationary pressure caused by external market factors.

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #24

25. Which of the following pay policies lays emphasis on performance?

(p. 12)

- A. Employee contributions
- B. Administration of the pay system
- C. External competitiveness
- D. Internal alignment
- E. Management

Difficulty: Easy

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #25

26. When executive pay is excessive relative to company performance, profits are diverted away from stockholders to the executives.

(p. 2)

TRUE

Difficulty: Easy

Learning Objective: 01-01 Describe how compensation is viewed differently by society; stockholders; managers; and employees in Canada and around the world.

Milkovich - Chapter 01 #26

27. Cost-of-living adjustment refers to percentage increment to base pay provided to employees based on their performance.

(p. 6)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #27

28. Total rewards refer to the psychological returns employees believe they receive in the workplace.
(p. 6)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #28

29. Merit pay is a one-time payment for meeting previously established performance objectives.
(p. 6)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #29

30. Total compensation includes psychological aspects of work such as recognition and status, challenging work, and learning opportunities.
(p. 5)

FALSE

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #30

31. Base wage is the cash compensation an employer pays for the work performed.
(p. 5)

TRUE

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #31

32. Total compensation only includes salary and incentives; not benefits.

(p. 5)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #32

33. Incentives may be long-term or short-term.

(p. 5)

TRUE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #33

34. Making contributions to Workers' Compensation is at discretion of the employer.

(p. 7)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #34

35. Allowances are rewards given to employees based on their performance.

(p. 7)

FALSE

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #35

36. Procedural fairness is the fairness of the process used to make a decision.

(p. 9)

TRUE

Difficulty: Easy

Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.

Milkovich - Chapter 01 #36

37. Pay objectives provide standards for evaluating the effectiveness of the pay system.

(p. 11)

TRUE

Difficulty: Medium

Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.

Milkovich - Chapter 01 #37

38. External competitiveness refers to pay comparisons between different skill levels in an organization.

(p. 12)

FALSE

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #38

39. Pay relationships within the organization affect employee decisions to stay with the organization.

(p. 12)

TRUE

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #39

40. While external competitiveness directly affects efficiency, it does not affect fairness.

(p. 12)

FALSE

Difficulty: Medium

Learning Objective: 01-05 Describe the four strategic policies in the pay model and the techniques associated with them.

Milkovich - Chapter 01 #40

41. Why is executive pay in Canada of special interest to stockholders?

(p. 2)

In Canada, pay for executives is supposed to be tied to the financial performance of the company. When executive pay is excessive relative to company performance, profits are diverted away from stockholders to the executives.

Difficulty: Medium

Learning Objective: 01-01 Describe how compensation is viewed differently by society; stockholders; managers; and employees in Canada and around the world.

Milkovich - Chapter 01 #41

42. Why is compensation important to managers?

(p. 2)

Managers have a stake in compensation: It directly influences their success in two ways: (1) compensation is a major expense, and (2) a manager uses it as a way to influence employee behaviour and consequently improve organization performance.

Difficulty: Medium

Learning Objective: 01-01 Describe how compensation is viewed differently by society; stockholders; managers; and employees in Canada and around the world.

Milkovich - Chapter 01 #42

43. What does base wage reflect?

(p. 4)

Base wage tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees.

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #43

44. What are the two major categories of total rewards?

(p. 4)

Total compensation and relational returns

Difficulty: Easy

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #44

45. List the three basic objectives of a compensation system.

(p. 8)

Efficiency, fairness, and compliance to rules and regulations.

Difficulty: Easy

Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.

Milkovich - Chapter 01 #45

46. Explain the two major categories of total rewards.

(p. 4)

The two major categories of total rewards are relational returns and total compensation. The relational returns (development opportunities, status, opportunity to belong, challenging work, and so on) are the psychological returns people believe they receive in the workplace. Total compensation is more transactional and includes pay received directly as cash (e.g., base, merit increases, incentives, cost-of-living adjustments) and indirectly as benefits (e.g., pensions, medical insurance, programs to help balance work and life demands).

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #46

47. What is base wage? Distinguish between a wage and a salary.

(p. 4)

Base wage is the cash compensation an employer pays for the work performed. Base wage tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees.

A distinction is often made between a wage and a salary, with salary referring to pay that is calculated at an annual or monthly rate rather than hourly which is the basis for wage.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #47

48. What are long-term incentives?

(p. 5)

Long-term incentives are intended to focus employee efforts on multi-year results. Typically they are in the form of stock ownership or options to buy stock at specified, advantageous prices.

Difficulty: Medium

Learning Objective: 01-03 Discuss major components of total rewards.

Milkovich - Chapter 01 #48

49. What are the basic building blocks of a pay model?

(p. 7)

A pay model contains three basic building blocks: (1) the strategic compensation objectives, (2) the strategic policies that form the foundation of the compensation system, and (3) the techniques of compensation.

Difficulty: Medium

50. What is procedural fairness?

(p. 8-9)

Procedural fairness is concerned with the processes used to make decisions about pay. It suggests that the way a pay decision is made may be as important to employees as the result of the decision.

Difficulty: Medium

Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.

Milkovich - Chapter 01 #50

Chapter 01 The Pay Model Summary

<u>Category</u>	<u># of Questio</u>
	<u>ns</u>
Difficulty: Easy	23
Difficulty: Medium	27
Learning Objective: 01-	4
01 Describe how compensation is viewed differently by society; stockholders; managers; and employees in Canada and a round the world.	
Learning Objective: 01-02 Define the term compensation.	1
Learning Objective: 01-03 Discuss major components of total rewards.	32
Learning Objective: 01-04 Identify and explain the three strategic objectives of compensation.	6
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