

INTRODUCTION

_____ 1. The schools of economic thought that have been the main supporters of capitalism are

- a. Marxism and Keynesianism
- b. the British classical school and the Austrian school
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 2. The Manchester, Currency, and Chicago schools have been among the principal allies of the classical and Austrian schools.

_____ 3. The most important members of the classical school were Adam Smith, David Ricardo, and John Stuart Mill.

_____ 4. The most important members of the Austrian school were Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises, and F.A. Hayek.

_____ 5. Among the leading critic(s) of capitalism or various major aspects of it have been

- a. Karl Marx
- b. John Maynard Keynes
- c. Joan Robinson
- d. Edward Chamberlin
- e. all of the above

_____ 6. Malthus and Sismondi were important members of the classical school.

_____ 7. J. B. Say, James Mill, J. R. McCulloch, and Nassau W. Senior were important members of the classical school.

_____ 8. The schools of economic thought that preceded the classical school included the Scholastics, the Mercantilists, and the Physiocrats.

_____ 9. The Mercantilists were intellectually closer to the classical school than were the Physiocrats.

_____ 10. Contemporary Keynesianism most closely resembles

- a. mercantilism
- b. physiocracy
- c. classical economics
- d. the Austrian school

_____ 11. The most important members of the Austrian school are

- a. Alfred Marshall
- b. Milton Friedman
- c. Leon Walras
- d. all of the above
- e. none of the above

_____ 12. The leading difference between classical economics and Austrian economics pertains to the theory of value and price and centers on the theory of diminishing marginal utility.

_____ 13. Classical economics was abandoned

- a. in part because it came to be viewed as implying the leading ideas of Marxism and the case for socialism
- b. in part because its espousal of the wages-fund doctrine offered fundamental opposition to essential aspects of the case for socialism
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 14. The abandonment of classical economics in the nineteenth century contributed to the success of anticapitalist ideas in the twentieth century

- a. insofar as the abandonment of the classical economists' ideas on the role of saving prepared the ground for the acceptance of Keynesianism in the 1930s
- b. insofar as the abandonment of the classical economists' ideas on the role of cost of production as a determinant of prices paved the way for the acceptance of the doctrines of pure-and-perfect competition and oligopoly and monopolistic competition in the 1930s
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 15. According to the instructor, classical economics makes possible a far more fundamental and thoroughgoing critique of the Marxian exploitation theory than that provided by Böhm-Bawerk and the Austrian school, despite the prevailing mistaken belief that it implies the exploitation theory.

_____ 16. The schools of economic thought which have been opposed to capitalism or essential features of it include the German historical school and the American institutionalist school, both of which denied the very possibility of a science of economic laws.

_____ 17. The leading members of the German Historical school were Wilhelm Roscher (1817–94), Gustav Schmoller (1838–1917), Lujo Brentano (1844–1931), and Werner Sombart (1863–1941).

_____ 18. Sombart began his career as a Marxist and later became a leading supporter of Nazism.

_____ 19. The leading members of the American institutionalist school were Thorstein Veblen (1857–1929), John R. Commons (1862–1945), and Wesley Mitchell (1874–1948).

_____ 20. Alfred Marshall's doctrine of the representative firm led to the conclusion that large-sized firms usually cannot gain by cutting their prices because it viewed all competitors as perfectly equal.

_____ 21. The partial equilibrium approach of Alfred Marshall focuses on the individual firm and industry divorced from the rest of the economic system.

_____ 22. The general equilibrium approach of classical and Austrian economics studies economic phenomena from the point of view of their effects on all members of the economic system, not just on those directly involved.

_____ 23. The partial equilibrium approach led to the breakup of economics into “microeconomics” and “macroeconomics,” the one studying the individual consumer and firm apart from connection with the rest of the economic system, and the other studying the economic system as a whole, apart from its connection to the actions of individuals.

_____ 24. According to the instructor, the theoretical substance of most textbooks on “microeconomics” is that the great bulk of business activity is tainted with an element of monopoly and that the only exception is the domain of pure and perfect competition, which is virtually nonexistent. At the same time, little or nothing of the sound price theory developed by the classical and Austrian economists is presented in these textbooks.

_____ 25. According to the instructor, the theoretical substance of most textbooks on “microeconomics” is “that with a few, limited exceptions, such as wheat farming, the whole of a capitalist economic system is tainted by an element of monopoly. The solution for this alleged state of affairs is supposed to be a radical antitrust policy, which would fragment all large businesses, or else the nationalization of such businesses and/or government control over their prices—and further policies that would force firms in the same industry to produce identical, indistinguishable products.”

_____ 26. According to the instructor, the theoretical substance of most textbooks on “macroeconomics” is the elaboration of the doctrines of Keynes that capitalism causes depressions and mass unemployment through overproduction and excess saving and that what is needed to counteract or prevent these evils is inflation of the money supply and deficit-financed government spending.

_____ 27. According to the instructor, a shortcoming of mathematical economics is that

- a. “It leads to an undue concentration of attention on states of final equilibrium, which are all that its differential equations are capable of describing. It thus takes attention away from the real-world *operation* of the profit motive and of the *market processes* by means of which the economic system continually tends to move toward a state of full and final equilibrium without ever actually achieving such a state. The economic system never actually achieves such a state because of continuous changes in the fundamental economic data.”

b. “The use of calculus and differential equations to describe economic phenomena represents a Procrustean bed, into which the discrete, discontinuous phenomena of actual economic life are mentally forced, in order to fit the mold of mathematically continuous functions to which the methods of calculus can be applied.”

c. “One major consequence [of mathematical economics] is the aid given to the perpetuation of a false theory of the determination of the prices of the factors of production: namely, the theory that the prices of the factors of production are directly derivable from the value of the consumers’ goods they help to produce.”

- d. all of the above
- e. none of the above

_____ 28. Von Mises

- a. is almost alone in the development of a systematic defense of capitalism in all of its leading aspects
- b. is the leading critic of socialism and Marxism
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 29. Von Mises

- a. developed answers to virtually all of the accusations made against capitalism—from its alleged exploitation of labor and responsibility for unemployment and depressions to its alleged responsibility for monopoly, wars, and racism
- b. developed a social philosophy of capitalism which demonstrates the benevolent operation of all of capitalism’s leading institutions, especially private ownership of the means of production, economic competition, and economic inequality
- c. expounded a procapitalist interpretation of modern economic history, and provided a devastating critique of socialism and government intervention in all of its forms
- d. all of the above

_____ 30. Von Mises demonstrated that a socialist economic system lacks the ability to engage in rational economic planning because of its lack of a price system and thus the ability to perform economic calculation.

_____ 31. In the instructor’s view, “what von Mises undertook, and which summarizes the essence of his greatness, was *to build a systematic intellectual defense of capitalism and thus of material civilization.*”

_____ 32. Von Mises’s major criticism of socialism is that it is impossible to practice a perfect system in an imperfect world.

Answers to Questions 1-32 on the Introduction

Q. #	Correct Answer
1	b
2	T
3	T
4	T
5	e
6	F
7	T
8	T
9	F
10	a
11	e
12	T
13	c
14	c
15	T
16	T
17	T
18	T
19	T
20	T
21	T
22	T
23	T
24	T
25	T
26	T
27	d
28	c
29	d
30	T
31	T
32	F