

CHAPTER 2. WEALTH AND THE ECONOMIC PROBLEM

- _____ 1. Wealth is material goods made by man.
- _____ 2. The concepts of wealth and money are interchangeable.
- _____ 3. The production of more wealth in the economic system necessarily means a larger total monetary value of that wealth, e.g., a larger GDP.
- _____ 4. A larger total monetary value of wealth fundamentally depends on
- more wealth
 - the existence of a larger quantity of money
- _____ 5. A connection exists between the quantity of money and the amount of wealth when the monetary unit is a physical commodity, such as gold or silver, and the supply of the monetary commodity increases.
- _____ 6. Monetary aggregates such as GDP or GNP are
- measures of the amount of wealth produced
 - indicators of the quantity of money in existence
- _____ 7. Economic goods are goods on whose behalf man must expend labor or effort. In contrast free goods, such as air and sunlight, come to man automatically, without expenditure of labor or effort on his part.
- _____ 8. Stocks, bonds, and bank deposits are wealth.
- _____ 9. Licenses, such as liquor-store licences and taxicab medallions,
- are wealth
 - restrain the supply of wealth by denying people the right to produce or offer it
- _____ 10. Patents and copyrights can contribute to the production of wealth but are not themselves wealth.
- _____ 11. Patents and copyrights
- serve to encourage the production of wealth
 - the effect of their expiration after a reasonable time is then to encourage it further
 - both (a) and (b)
- _____ 12. In a society that allows slavery, such as the South before the Civil War,
- slaves are wealth
 - the production of wealth is reduced because the market value of slaves serves to displace the accumulation of material capital goods of a comparable value
- _____ 13. Stocks, bonds, bank deposits, licenses, patents, copyrights, etc. are
- wealth
 - property possessing market value
- _____ 14. Petroleum and uranium have always been economic goods and thus wealth.
- _____ 15. Petroleum and uranium, before becoming economic goods, first
- had to be recognized as possessing properties that enable them to serve human needs or wants
 - had to be made subject to man's physical power to direct them to the satisfaction of his needs or wants without the expenditure of an inordinate amount of effort
 - both (a) and (b)
- _____ 16. Because iron is wealth, it follows that iron on Mars or under the floor of the oceans is wealth.
- _____ 17. Iron on Mars or under the floor of the oceans
- can never be wealth
 - could someday become wealth if means were devised whereby man was in a position to gain physical command over it such that he could direct it to the satisfaction of his needs or wants without having to perform inordinate labor or effort
- _____ 18. Deposits of iron, copper, or any of the other metals were not wealth to the men of the Stone Age.
- _____ 19. The wealth constituted by the mineral deposits of North America has steadily diminished as more and more minerals have been extracted from the ground.
- _____ 20. The extent to which the land and mineral deposits of North America represents wealth greatly increased over the 19th and 20th centuries.
- _____ 21. Desert land on which crops could successfully be grown if the land was irrigated is generally not an economic good or wealth.
- _____ 22. Imaginary goods are things believed, in contradiction of the evidence, to be capable of satisfying a human need or want.
- _____ 23. Goods
- of the first order are goods standing closest to the satisfaction of human needs or wants, e.g., bread
 - of the second order are goods necessary to produce goods of the first order, e.g., flour
 - of the third order are goods necessary to produce goods of the second order, e.g., wheat
 - all of the above
- _____ 24. Shale oil is presently not wealth. It would become wealth if its cost of extraction and processing were reduced to a level comparable to that of liquid petroleum.
- _____ 25. The source of the goods-character of things is ultimately *within us*. Goods derive their character as goods by virtue of their ability to benefit human beings.

_____ 26. The fact that more people are employed today in the various service industries than in manufacturing, mining, and agriculture shows that our economic system no longer revolves around the production of wealth.

_____ 27. Economics is concerned with services only insofar as they are necessary to the production, enjoyment, or acquisition of wealth, or depend on the use of wealth. Economics is not at all concerned with the rendition of services apart from their connection with wealth.

_____ 28. Its fundamental concern with the production of wealth under a system of division of labor is what leads economics to be vitally concerned with the study of exchange, including the explanation of the ratios at which services might be exchanged for services.

_____ 29. Economics is the science which studies the allocation of scarce means among competing ends. It is not a science of wealth.

_____ 30. Among the leading classical economists were Menger, Böhm-Bawerk, and Mises.

_____ 31. Among the leading Austrian economists were Smith, Ricardo, and Mill.

_____ 32. The ultimate source of the importance of the division of labor and capitalism, and of the science of economics, is their contribution to the production of wealth.

_____ 33. It is incumbent upon economics, as a science of wealth, to provide philosophical validation for the production of wealth being a central, continuing concern of human existence, because its own importance is derived from the importance of the subject matter it studies.

_____ 34. Man's possession of the faculty of reason implies a limitless need and desire for wealth on his part, because

- a. it creates the potential for a limitless range of knowledge and awareness, which in turn creates the potential for a limitless range of action and experience
- b. wealth in the form of tools, implements, machines, and instrumentalities of all kinds is the material means of action
- c. wealth in the form of works of art and sculpture, fine homes and furniture, landscaped grounds, and other objects of contemplation is the material source of valuable experiences
- d. all of the above taken together

_____ 35. Man's need for wealth merely in order to serve his needs for nutrition and health can range from a few primitive hunting implements to perhaps the greater part of a modern economic system, including such industries as iron and steel, electric power, petroleum refining, motor vehicle and aircraft manufacturing, and shipbuilding.

_____ 36. Reason gives man the ability to use wealth progressively to enhance the exercise of the capacities he shares in common with lesser species.

_____ 37. The withdrawal of the forms of wealth specifically adapted to it would

- a. reduce music to the untrained singing of the human voice before small, immediately present audiences
- b. reduce science to the level of perhaps drawing a circle in the sand with one's finger
- c. reduce art probably to the level of making a sketch on the wall of a cave with a piece of charcoal from a camp fire
- d. all of the above
- e. none of the above

_____ 38. Man's nature as a rational being introduces additional, "higher" dimensions into the satisfaction of his "lower" needs such as nutrition.

_____ 39. Man's desire for novelty and variety stands in the service of his life by inducing him to explore things he would otherwise not have explored and which turn out to have major practical application, as was the case, for example, with the automobile and the personal computer.

_____ 40. Even when no practical applications ever result directly from the things that are desired, such as the paintings or sculptures that a millionaire desires to add to his collection, their being desired still produces important practical results.

_____ 41. The proposition of Adam Smith that "the desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage and household furniture seems to have no limit or certain boundary" continues to be true when understood in contemporary terms.

_____ 42. While the desire for additional wealth can be presumed always to be present, philosophical convictions of a definite type must be present to induce people to desire it strongly enough to go out and actually produce it.

_____ 43. The fact that the need and desire for wealth are limitless does not mean that when people devote themselves to satisfying that need and desire, as in the nations of modern capitalism, they go through life with a sense of endless frustration, seeking more than they can ever hope to obtain.

_____ 44. Far from creating endless frustration, the pursuit of ever more wealth should be expected to contribute powerfully to human happiness.

_____ 45. Progress is the natural result of the use of reason as a constant.

_____ 46. Economic progress contributes to human happiness by enabling people to live in the present in the light of the prospect of a better future.

_____ 47. According to the doctrines of cultural relativism and conspicuous consumption, the concept of economic progress can have no objective meaning.

_____ 48. How man succeeds in relation to the physical world provides an objective standard by which to judge the value of cultures.

_____ 49. The basis for claiming that the automobile is objectively an advance over the horse and buggy is ultimately the same as the basis for claiming that the possession of legs is objectively better than not possessing legs.

_____ 50. The basis for claiming that radio is objectively an advance over the telegraph and tom tom, that television is objectively an advance over radio, and that color television is objectively an advance over black and white, is ultimately the same as the basis for claiming that

- a. the possession of ears is objectively better than not possessing ears
- b. the possession of eyes and ears together is objectively better than possessing ears alone
- c. the ability to see in color is objectively better than being color blind
- d. all of the above

_____ 51. On the basis of the standard of the value of being able to see, hear, move, do, and think, the earning of wealth *deserves* to bring prestige.

_____ 52. The attempt to substitute the gaining of prestige for the incentive of gaining wealth

- a. is tantamount to asking people to toil throughout the year in order to gain a medal on May Day and then, hopefully, to thereafter be called a good boy
- b. ends up bringing the opposite of prestige to those who would accept the substitution
- c. both (a) and (b)

_____ 53. The fact that in our culture many people want to own such goods as horses, canoes, bows and arrows, and so on, and in some cases prefer units of these goods to units of more advanced goods serving the same needs

- a. is consistent with the objective superiority of the goods of modern capitalism
- b. further exemplifies the principle that man's need for wealth is limitless
- c. both (a) and (b)

_____ 54. In the name of being able to see, hear, move, or do anything that our senses, limbs, and minds enable us to do—in short, in the name of being able to live as human beings—the division of labor and capitalism and the values that underlie them—namely, reason, science, technology, individual rights, limited government and economic freedom, and private ownership of the means of production—deserve to be upheld.

_____ 55. The same principle that establishes the objectivity of the economic advances of modern capi-

talism directly establishes the objectivity of the superiority of modern capitalist civilization as such, in comparison to any other form of civilization.“

_____ 56. By the standard of the ability to acquire and apply knowledge,

- a. societies that have developed the art of writing are objectively superior to those that have not
- b. societies that, in addition to having developed the art of writing, have also identified important principles of mathematics and science, are objectively superior to those that have developed merely the art of writing
- c. societies that, in addition to having identified important principles of science and mathematics, have also identified the laws of logic and the principle of causality, are objectively superior to those that have not made these further identifications
- d. societies that, in addition to having identified the laws of logic and the principle of causality, have achieved an extensive division of labor and secured the freedoms of speech and press, are objectively superior to those that have not achieved these further accomplishments
- e. all of the above

_____ 57. Capitalist civilization—modern Western civilization—is

- a. not the civilization of the white man
- b. a body of knowledge and values
- c. open to men of all races
- d. the civilization of all men who wish to prosper and are prepared to adopt reason as their fundamental means of doing so
- e. all of the above

_____ 58. Those who view modern Western civilization, whether with pride or with hatred, as the civilization of the white man only are implicitly racists, in that they view civilization and culture as being racially determined.

_____ 59. Racism is present in the belief that civilization and culture are determined by racial membership. On this basis,

- a. earlier generations of racists held that the existence of inferior civilizations and cultures was proof of the racial inferiority of the members of such civilizations and cultures
- b. present-day racists hold that the equal value of all races of human beings implies the equal value of all civilizations and cultures
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 60. The law of diminishing marginal utility means that the larger is the supply of a good that an individual consumes or possesses, the smaller is the utility, importance, or subjective value that he attaches to any given unit of the good.

_____ 61. The law of diminishing marginal utility means that the larger is the quantity of a given factor

of production applied to a fixed quantity of another factor of production, for example, more labor applied to the same quantity of land, the smaller is the increase in output compared to the increase in input.

_____ 62. The law of diminishing marginal utility rests on the fact that

- a. people choose to satisfy their more important wants ahead of their less important wants
- b. successive units of a supply encounter needs or wants that have already been satisfied to some extent by previous units of the supply and are therefore now less urgent
- c. both (a) and (b)

_____ 63. “The concept ‘most important of our wants that a good is capable of satisfying’ must be understood as a *variable range*, whose extent depends on the quantity of the good we possess.

_____ 64. The marginal wants that a good serves should be thought of as being the least important of the most important wants that its supply suffices to serve.

_____ 65. The utility of the marginal unit of a supply determines the utility of *any* of the units of that supply at that moment.

_____ 66. The law of diminishing marginal utility contradicts the proposition that man’s need for wealth is limitless.

_____ 67. Despite the views of Galbraith, the law of diminishing marginal utility is consistent with the fact that man’s need for wealth is limitless, because

- a. so long as additional wealth has any utility at all, more wealth is better than less wealth
- b. the process by which wealth is increased is accompanied by the discovery of new avenues of consumption, which serves to increase the marginal utility of wealth in comparison with what it would otherwise be—e.g., while literal horses in the range 101-300 might have little or no marginal utility, the same is certainly not true for horsepower in the range 101-300 or 101-3000, e.g., in the form of automobile engines, elevators and all kinds of other machines and motors
- c. as wealth increases, the size of the marginal unit under consideration frequently increases as well—e.g., a mansion instead of an ordinary home, a private jet instead of just an automobile
- d. all of the above

_____ 68. The law of diminishing marginal utility resolves the classical economists’ paradox of value—i.e., the seeming paradox constituted by the fact that goods of apparently the lowest utility, such as diamonds, are normally more valuable in exchange than goods of apparently the highest utility, such as water.

_____ 69. Diamonds are more valuable than water in the sense that a diamond is more valuable than, say, 100,000 gallons of water added on to a supply of water

at one’s disposal that is already sufficient to provide for all of one’s need or desire for water.

_____ 70. Determination of price by cost is an instance of the operation of the law of diminishing marginal utility in that the value of the means of production, which constitutes the cost, is itself determined by the value of the marginal product of the means of production.

_____ 71. The law of diminishing marginal utility helps to explain the pattern of demand that prevails in the economic system at any given set of prices of goods.

_____ 72. The pattern of consumer spending that results from the operation of the law of diminishing marginal utility is characterized by

- a. equal proportionality between price and marginal utility in all lines of expenditure.
- b. a condition in which a change in the pattern of spending would be accompanied by the loss of more utility in the line where spending was reduced than the gain of utility in the line(s) where spending was increased

_____ 73. The principle of diminishing marginal utility helps to explain the phenomenon of partial, relative overproduction and underproduction described by Say’s Law.

_____ 74. In essence, our desire for wealth outstrips our ability to produce it by virtue of the limitless range of the mental in comparison with the physical and thus by virtue of the fact that the range of our imaginations is always incomparably greater than the power of our arms.

_____ 75. Because basic advances in the ability to produce are accompanied by the opening up of new modes of consumption, our desire for wealth continues to outstrip our ability to produce it by an undiminished margin, no matter how much we may augment our ability to produce.

_____ 76. What economists mean by “scarcity” is

- a. the lack of urgently needed supplies
- b. an excess of the desire for wealth over the ability to produce it

_____ 77. Scarcity

- a. in a capitalist society means an excess of the desire for wealth over the ability to produce it
- b. in a precapitalist society means a lack of urgently needed supplies
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 78. Scarcity as experienced under capitalism is the cause of the progressive elimination of scarcity in the sense experienced in a precapitalist society.

_____ 79. Time preference

- a. means the preference, other things being equal, for goods in the present rather than in the future or

in the nearer future rather than in the more remote future

- b. is analogous in the valuation of temporally more remote future goods to the perception of spatially more remote physical objects
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 80. The principle of time preference is implied in the very nature of valuing something, in that if one values something, then other things being equal, one must consume it today or never consume it.

_____ 81. The nature of human life implies time preference

- a. in that whatever value we attach to being alive in the future is attributable to our being alive in the present, which, given the uninteruptibility of human life, is the indispensable precondition to our continuing to be alive in the future
- b. the value of our being alive in the present must always exceed the value we attach to being alive in the future because it is equal to the sum of the value we attach to being alive in the future *plus* the value we attach to being alive between now and that time in the future
- c. both (a) and (b)

_____ 82. The existence of time preference prevents the existence of profit and interest from always resulting in saving and the accumulation of additional capital.

_____ 83. Time preference manifests itself in the extent to which individuals make provision for the future relative to their current consumption.

_____ 84. Time preference implies that if it is December, an individual in Minneapolis should be expected to value a bathing suit that will be available to him

- a. in the coming January more highly than one that will be available to him in the coming July
- b. in the coming July more highly than one that will be available to him in the July of the following year

_____ 85. It is inconsistent with the principle of time preference to value the first unit of a future supply above the second unit of a present supply.

_____ 86. The ascending price structure of agricultural commodity futures

- a. is inconsistent with the principle of time preference
- b. reflects the increasing scarcity of supplies of agricultural commodities between harvests, which is itself due to time preference in bringing about the consumption of such supplies

_____ 87. Other things being equal, the savings of an individual with a higher degree of time preference will be less than those of an individual with a lower degree of time preference.

_____ 88. The scarcity of capital goods exists

- a. in both a horizontal and a vertical dimension
- b. in the sense that more capital goods are needed to produce the larger supplies of consumers' goods that people desire
- c. in the sense that more capital goods can be used per unit of consumers' goods produced and result in the ability to produce improved consumers' goods or equally good consumers' goods with greater efficiency
- d. all of the above

_____ 89. Examples of different degrees of capital intensiveness in the production of products are

- a. the substitution of machinery for manual labor
- b. the construction of railroads and highways that follow straighter, more level routes but at a greater initial cost
- c. the maintenance of a higher rather than a lower ratio of inventories to sales, as, for example, in order to provide a wider variety of selection
- d. the production of twelve-year old whiskey instead of eight-year old whiskey
- e. all of the above

_____ 90. Industries typically differ from one another in their degree of capital intensiveness.

_____ 91. Time preference influences

- a. the methods of production used
- b. the kinds of products produced
- c. the relative size of various industries
- d. all of the above

_____ 92. Time preference operates to keep capital in its "vertical dimension" permanently scarce.

_____ 93. Before the scarcity of capital in its vertical dimension could be overcome capital would have to be accumulated sufficient

- a. to enable the 80 percent of the world that is not presently industrialized to come up to the degree of capital intensiveness of the 20 percent of the world that is industrialized
- b. within the industrialized countries to enable every factory, farm, mine, and store to increase its degree of capital intensiveness to the point presently enjoyed only by the most capital-intensive establishments
- c. within the industrialized countries to enable all establishments to raise the standard of capital intensiveness still further, to the point where no further reduction in costs of production or improvement in the quality of products could be achieved by any greater availability of capital in its vertical dimension
- d. all of the above

_____ 94. It is always necessary to leave undone an incalculable range of potential improvements whose execution would require a more abundant accumulation of capital in its vertical dimension than exists.

_____ 95. Other things being equal, time preference is

- a. the lower
- b. the higher

the higher is the degree of cultural rationality and of economic freedom and respect for property rights.

_____ 96. Wealth is the result of human labor.

_____ 97. Labor is the means by which man's mind transmits his designs and purposes to matter.

The following is a four-part question.

_____ 98. Labor is man's application of his bodily and mental faculties for the purpose of altering matter in form or location and thereby making the matter thus altered serve a further purpose.

_____ 99. Matter thus altered by man's labor is a *product*.

_____ 100. Production is the process of thus altering matter.

_____ 101. A producer is one who effects such alterations.

_____ 102. In a division-of-labor society, the concept of labor is not limited to manual labor. It embraces much more, such as the labor entailed in founding, organizing, and directing business firms and in providing them with capital. Such labor achieves its effects by operating through the manual labor of others, which it renders more efficient.

_____ 103. Man does not create the matter that natural resources represent, but he does create their wealth-character by means of identifying their useful properties and by making it possible to gain such physical command over them that he can direct them to the satisfaction of his needs or wants without the expenditure of an inordinate amount of labor.

_____ 104. Labor is the source of equipment and materials, including additional agricultural commodities and mineral supplies extracted from the ground.

_____ 105. The application of more labor is the only fundamental requirement for increasing the supply of wealth.

_____ 106. The scarcity of wealth implies a more fundamental scarcity of labor, inasmuch as labor is the only fundamentally limiting factor of production.

_____ 107. The scarcity of labor is manifest in the fact that virtually everyone would like to enjoy an income many times greater than the income he is presently capable of earning and at his present rate of pay would have to work more hours than there are in the week in order to earn it.

_____ 108. In order for the average member of society to have, say, five times the real income (i.e., buy-

ing power) that he now has, it would be necessary for him to

- a. produce five times as much as he now produces
- b. in the present state of technology and methods of production, with its present limitations on the output per hour of labor, expend five times the labor, in order to produce five times the output
- c. earn five times the money income that he now earns
- d. all of the above
- e. (a) and (b), but not (c)

_____ 109. The reason that more production rather than more money income is the key to more buying power is

- a. the increase in the quantity of money that would be necessary to raise money incomes would operate equally to raise prices, leaving buying power unchanged
- b. the increase in production and supply, on the other hand, prevents prices from rising (or from rising as much) when the increase in the quantity of money raises money incomes, and would operate to reduce prices in the face of the same money incomes, thereby still increasing buying power
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 110. The supply of labor that people can provide falls radically short of the supply whose products they would like to have.

_____ 111. The scarcity of personal services adds to the scarcity of labor.

_____ 112. The scarcity of labor is implied in the fact that each of us is easily capable of forming desires whose fulfillment requires the labor of multitudes, and yet by the laws of arithmetic, the average member of any society can never obtain more than the labor, or products of the labor, of just *one* person.

_____ 113. The fundamental scarcity of labor implies that there is no inherent reason for the existence of mass unemployment—that mass unemployment is a man-made phenomenon created in opposition to the underlying economic situation.

_____ 114. The scarcity of labor is ineradicable, i.e., is not eliminated either by a larger supply of labor or by a higher productivity of labor, because

- a. additional workers bring with them desires for wealth far in excess of their ability to add to its production
- b. a higher productivity of labor is accompanied by new and additional kinds of consumers' goods, for which new and additional needs and desires appear
- c. both (a) and (b)

_____ 115. The fundamental and essential nature of economic life is this: the need and desire for additional wealth are there and the nature-given means of produc-

ing it are there; all that is lacking is the ability of human labor to transform the nature-given means of production into additional wealth. This implies

- a. the scarcity of human labor
- b. the need to raise the productivity of human labor
- c. the need for a division-of-labor, capitalist society as the essential framework and foundation of a progressively rising productivity of labor
- d. all of the above

_____ 116. Always, what stands between man and his need for greater wealth is his limited ability to produce wealth—his limited ability and also willingness to perform labor.

_____ 117. The economic problem is how continuously to raise the productivity of labor, to make possible an ever increasing production and enjoyment of goods per capita.

_____ 118. An important subsidiary problem that is frequently referred to as the economic problem is how to allocate an existing limited ability to produce in accordance with the choices of individuals to satisfy their more important wants ahead of their less important wants.

_____ 119. The solution for the economic problem is capitalism.

Answers to Questions 1-119 on Chapter 2

| Question # | Correct Answer | Question # | Correct Answer | Question # | Correct Answer |
|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
| 1 | T | 41 | T | 81 | c |
| 2 | F | 42 | T | 82 | T |
| 3 | F | 43 | T | 83 | T |
| 4 | b | 44 | T | 84 | b |
| 5 | T | 45 | T | 85 | F |
| 6 | b | 46 | T | 86 | b |
| 7 | T | 47 | T | 87 | T |
| 8 | F | 48 | T | 88 | d |
| 9 | b | 49 | T | 89 | e |
| 10 | T | 50 | d | 90 | T |
| 11 | c | 51 | T | 91 | d |
| 12 | b | 52 | c | 92 | T |
| 13 | b | 53 | c | 93 | d |
| 14 | F | 54 | T | 94 | T |
| 15 | c | 55 | T | 95 | a |
| 16 | F | 56 | e | 96 | T |
| 17 | b | 57 | e | 97 | T |
| 18 | T | 58 | T | 98 | T |
| 19 | F | 59 | c | 99 | T |
| 20 | T | 60 | T | 100 | T |
| 21 | T | 61 | F | 101 | T |
| 22 | T | 62 | c | 102 | T |
| 23 | d | 63 | T | 103 | T |
| 24 | T | 64 | T | 104 | T |
| 25 | T | 65 | T | 105 | T |
| 26 | F | 66 | F | 106 | T |
| 27 | T | 67 | d | 107 | T |
| 28 | T | 68 | T | 108 | e |
| 29 | F | 69 | T | 109 | c |
| 30 | F | 70 | T | 110 | T |
| 31 | F | 71 | T | 111 | T |
| 32 | T | 72 | b | 112 | T |
| 33 | T | 73 | T | 113 | T |
| 34 | d | 74 | T | 114 | c |
| 35 | T | 75 | T | 115 | d |
| 36 | T | 76 | b | 116 | T |
| 37 | d | 77 | c | 117 | T |
| 38 | T | 78 | T | 118 | T |
| 39 | T | 79 | c | 119 | T |
| 40 | T | 80 | T | | |