

PRODUCTIONISM

(Chapter 2, Sections 1 – 3, 6 and 8; and Chapter 13, Part A)

_____ 1. Productionism holds that the fundamental problem of economic life is how steadily to increase the ability to produce in the face of a limitless need and desire for wealth.

_____ 2. Consumptionism holds that man's need and desire to consume are essentially fixed and given, and that the ability to produce threatens constantly to outrun them, with the result that the fundamental problem of economic life is not the production of wealth, but the production of *consumption*.

_____ 3. Productionism is closely connected with

- a. the quantity theory of money
- b. Say's Law of Markets
- c. the proposition that a general or absolute overproduction is impossible
- d. all of the above

_____ 4. Productionism is closely connected with the proposition that

- a. the productive process generates an aggregate real demand that is equal to aggregate supply and grows precisely as aggregate supply grows
- b. the productive process generates an aggregate monetary demand that in the absence of government interference is sufficient to buy the aggregate supply at a profit
- c. what is saved is spent
- d. saving is the source of most spending in the economic system and underlies both a growing aggregate real demand for goods and services and a growing aggregate monetary demand for them
- e. all of the above

_____ 5. Productionism is closely connected with a series of further propositions, among them

- a. that man's nature as a rational being underlies a limitless need and desire for wealth
- b. that the division of labor is essential for a high and rising productivity of labor
- c. the law of comparative advantage
- d. that real wages and thus the average worker's standard of living are determined by the productivity of labor
- e. all of the above

_____ 6.

- a. The leading philosophic basis for consumptionism, that has become increasingly more influential in recent decades, is the belief that man is fundamentally no different than the lower animals and thus does not have fundamental needs that extend beyond theirs.
- b. When confronted with the fact that man's desires obviously do extend beyond the range of an animal's, consumptionists can be expected to reply that this is the result of "social and cultural conditioning" and the work of advertisers and that

the desires are "unnatural," "artificial," and "created."

- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 7. Every increase in the demand for the product of a particular industry that is based on the need or desire for its product intensifying and thus pushing ahead of the needs and desires for the products of other industries and coming to the forefront, must be accompanied by an equivalent decrease in the demand for the products of other industries.

_____ 8. The need and desire for goods count in demand only insofar as they operate to determine to which of various possible competing alternatives demand is directed.

_____ 9. To those concerned only with a particular industry, it correctly appears that because any given industry, at one time or another, could experience an increase in demand by virtue of the need or desire for its product gaining in priority relative to the need and desire for the products of other industries, that all industries might gain in this way at the same time.

_____ 10.

- a. The preceding question describes a case of adding up as additional demands what are in fact a series of mutually exclusive alternatives, each of whose individual existence is predicated on an equivalent decline in demand in the rest of the economic system.
- b. The preceding question is an example of what logicians call "the fallacy of composition," that is, invalidly generalizing from what occurs in part of a system to the system as a whole.
- c. both (a) and (b)

_____ 11. Businessmen who think of the effect of things exclusively on their own company or industry and not, at the same time, on the rest of the economic system, are easily led to the conclusion that

- a. what is required to increase demand in the economic system is the creation of additional needs and desires
- b. what explains low profits in the economic system is too much production
- c. are often led to accept a consumptionist view of things on the basis of misinterpreting their experience
- d. all of the above

_____ 12. In contrast to the businessmen described in the previous question, those who look at the effect of things not only on an individual company or industry but also on the rest of the economic system realize that

- a. when the emergence of a greater need or desire for a particular product serves to increase the demand for that product, it simultaneously most likely reduces the demand for some other product or products to the same extent because people's overall means of purchase do not suddenly become greater and there is no reason to suppose that the one thing they will give up is the satisfaction and security they derive from holding the amount of money they presently hold
- b. that the role of needs and desires in connection with demand is that the needs and desires that are judged relatively more urgent are satisfied and those that are judged relatively less urgent are not satisfied; that needs and desires overall far exceed people's ability to satisfy them and that more needs and desires do not increase overall demand but merely change its direction, from some things to other things
- c. given the total amount of money spent to buy products and the total amount of money spent to produce them, the total amount and average rate of profit in the economic system does not depend on the physical volume of production in the economic system and is not reduced by a larger volume of production
- d. when the production and sale of a greater supply of any particular product serves to reduce the rate of profit that is earned on the product, the actual reason is that the product has gotten into a situation of *relative* oversupply, i.e., it is being produced too heavily relative to other products, which, in the nature of the case, are being produced in insufficient quantity relative to the product in question and are thereby rendered more profitable to the same extent that this particular product is rendered less profitable
- e. all of the above

13. Businessmen who think of the effect of things exclusively on their own company or industry and not, at the same time, on the rest of the economic system, are often led to accept a consumptionist view of things on the basis of misinterpreting their experience.

14. In contemporary terms 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" can be stated as "The man who has no automobile would like to be able to afford one. The man who has an automobile would like to be able to afford a newer, better one. The man who has several new automobiles of the highest quality would like to be able to afford a yacht or a plane. If he is rich enough to afford both a yacht and a plane, then he would like to be able to afford a yacht on which the plane can land, and so on."

15. The sense in which one can legitimately say that a lack of desire for wealth constitutes an economic problem is that

- a. it renders demand inadequate to purchase the supply
- b. it deprives people of the motive to work and produce

16. Among the philosophical convictions that must be present to induce people to desire additional wealth strongly enough to go out and actually produce it are

- a. those underlying limited government, economic freedom, and the security of property
- b. the conviction that the material world is fully real and operates according to causal laws that man's mind can grasp and apply
- c. that the individual is a self-responsible causal agent capable of improving his life in the future by means of his actions in the present
- d. all of the above

17. The fundamental basis in human nature for the desire for goods outstripping the willingness and ability to produce goods is

- a. the success of the advertising industry in inculcating the conviction that more is better than less and that big is better than small
- b. the cultural heritage of the society in which we live, with its emphasis on material achievement irrespective of the cost to the environment
- c. the limitless range of the mental in comparison with the physical and thus the fact that the range of our imaginations is always incomparably greater than the power of our arms
- d. all of the above

18. The desire for goods continues to outstrip the willingness and ability to produce goods no matter what the advances in the ability to produce because

- a. the advertising industry never sleeps
- b. the cultural heritage of the society in which we live always demands more from us
- c. no matter how much we may augment the power of our arms by means of tools and machinery, at the same time, as part of the same process, we augment the power of our imaginations, in that the new knowledge required to provide the tools and machines also opens up new vistas in terms of what can be produced
- d. all of the above

19. The fundamental basis in human nature for man's *need* for goods having no limit is

- a. man's possession of reason gives him the potential for a limitless range of knowledge and awareness, hence of action and experience
- b. goods are the material means of acting and experiencing
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 20. There is an inherent, ineradicable scarcity of human labor because

- a. there is a limitless need and desire for goods and services
- b. human labor is always the limiting factor in the production of goods and services
- c. both (a) and (b)

_____ 21. The scarcity of labor in relation to the goods and services we would like to have is indicated by the fact that practically everyone would like to earn five or more times the income he now earns

- a. and that to earn this income at his present rate of pay for a forty-hour week, he would have to work more hours than there are in the week
- b. and that to produce the goods and services that would constitute a five-or-more-times higher level of real income in the present state of technology and productivity of labor, five or more times the labor would have to be employed than is now employed
- c. both (a) and (b)

_____ 22. We could work ourselves into the hospital from exhaustion long before we could produce all the goods and services we would like to have.

_____ 23. 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.

_____ 24. 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 producing it are there; all that is lacking is the ability of human labor to transform the nature-given means of production into additional wealth.

_____ 25. The adoption of labor-saving machinery is held to be a cause of unemployment on the basis of the belief that

- a. there is a fixed, limited need and desire to consume
- b. the higher productivity of labor that improved machinery makes possible causes the ability to produce at the point of full employment to exceed the allegedly fixed, limited need and desire to consume
- c. the supply of goods and services corresponding to the allegedly fixed, limited need and desire to consume can be produced with a correspondingly smaller quantity of labor as improvements in machinery take place
- d. all of the above

_____ 26. According to Hazlitt, the effect of machinery is

- a. to cause unemployment
- b. to cause additional employment
- c. to increase production and raise the standard of living

_____ 27. The belief, at the core of consumptionism, that man's need and desire for wealth is fixed, implies that

- a. there is only a fixed stock of work to be done in the world
- b. that improvements in machinery reduce the work available to be done by people
- c. that to the extent that the members of some groups obtain additional employment, equivalently less employment remains for the members of other groups
- d. that it is necessary and valuable to *make work*
- e. all of the above

_____ 28. According to Hazlitt, the effect of "spread-the-work" schemes is

- a. a reduction in efficiency insofar as they take the form of arbitrary job classifications requiring the employment of unnecessary workers to accomplish a given result, and a reduction of employment elsewhere in the economic system by virtue of people having to pay higher prices to cover the higher costs resulting from the inefficiencies and thereby being deprived of the funds to buy the products of other industries
- b. a subsidization of previously unemployed workers by workers already employed, insofar as the schemes take the form of a reduction in hours worked per worker, are not accompanied by attempts to offset the reduced hours with higher hourly wage rates, and provided that there are a sufficient number of unemployed in every industry to take up the slack provided by the reduction in hours
- c. greater unemployment in the economic system as a whole insofar as the schemes are accompanied by increases in hourly wage rates in order to offset the effects of the reduction in hours
- d. all of the above
- e. none of the above

_____ 29. Consumptionism and its notion that what is scarce is not goods but the need and desire for goods, supports the belief that by increasing the need and desire for goods

- a. war and destruction are a source of prosperity, via the greatly enhanced need for weapons production during the war and the need for replacement of damaged or destroyed property that takes place during and after the war
- b. a policy of additional peace-time government spending, even if it were for pyramid building, is a source of prosperity by virtue of adding to the need and desire for goods and services and thereby to employment
- c. advertising is a source of prosperity, precisely by virtue of its alleged inherent fraud of leading people to desire things that they do not really need, because in so doing it adds to the demand for goods and labor

- d. a higher birthrate is a source of prosperity, by creating new and additional consumers, each one with his respective new and additional desires—provided the new and additional consumers do not attempt to work and produce and thereby add to the supply of labor and ability to produce as much as they add to the supply of needs and desires
- e. a policy of imperialism is a source of prosperity by virtue of adding to the outlet for goods the needs and desires of large numbers of desperately poor potential consumers
- f. all of the above

_____ 30. In his discussion of “the blessings of destruction” Hazlitt

- a. refers to the belief that many people have that war and destruction are sources of prosperity
- b. describes the confusion between need and demand
- c. describes the confusion between more money and more purchasing power
- d. illustrates the mistaken habit of looking only at part of the economic picture rather than the whole
- e. all of the above

_____ 31. Consumptionism’s notion of a limited need and desire for goods lead to the belief that

- a. the presence of great wealth in a country is a liability, in that it represents the using up of the allegedly limited stock of needs and desires for wealth, thereby leaving the country relatively poor in terms of its remaining stock of unmet needs and desires for wealth and thus in its ability to support employment and production
- b. the absence of wealth in a country is an asset, in that it represents a correspondingly limited using up of the allegedly limited stock of needs and desires for wealth, thereby leaving the country relatively rich in terms of its remaining stock of unmet needs and desires for wealth and thus in its ability to support employment and production
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 32. The actual effect of government spending on employment and prosperity is

- a. to increase demand and employment in certain lines
- b. to equivalently reduce demand and employment in other lines
- c. to deprive the individual taxpayer of the power to decide how his income shall be spent
- d. all of the above

_____ 33. Hazlitt believes that war and government spending undertaken for the purpose of stimulating employment

- a. reduce the average standard of living
- b. cause unemployment
- c. both (a) and (b)

_____ 34. According to consumptionism, a larger population contributes to prosperity by virtue of

- a. increasing a country’s ability to produce
- b. increasing a country’s need and desire to consume
- c. increasing a country’s need and desire to consume and not increasing its ability to produce
- d. all of the above

_____ 35. The actual effect of an increase in population on aggregate demand is

- a. to divert aggregate demand from lines serving the needs of adults to lines serving the needs of children, in the period when the larger population is in its childhood
- b. to increase overall aggregate demand in the period when the larger population is in its childhood only insofar as parents are led to work and produce more in order to be able to provide for their children without suffering an equivalent reduction in what they provide for themselves
- c. to increase overall aggregate demand when the larger population reaches adulthood insofar as the additional people go to work and enlarge the total of what is produced
- d. all of the above

_____ 36. The consumptionist belief in the existence of a fixed need and desire for goods leads to the belief that

- a. the opening up of export markets, especially to poor countries, is helpful to employment by enabling the country’s labor force to serve the needs and desires of additional people
- b. the increase in imports reduces the extent to which the needs and desires of the country’s population are served by its own labor force and correspondingly reduces employment opportunities for that labor force
- c. the ideal arrangement in foreign trade from the point of view of promoting employment in the country is to export as much as possible and import as little as possible
- d. all of the above

_____ 37. The notion of a fixed need and desire for goods leads to the belief that the gain from foreign trade is in importing, not exporting.

_____ 38. Advertising is inherently fraudulent, according to consumptionism, because it attempts to lead people to desire goods and services that, according to consumptionism’s very limited theory of needs, they have no rational basis for desiring.

_____ 39. The actual relationship between advertising and aggregate demand is

- a. advertising diverts demand from some lines to others by making people aware of the alternatives
- b. advertising increases aggregate demand insofar as it leads people to work and produce more in

efforts to earn the additional income to buy the advertised goods

c. both (a) and (b)

_____ 40. The belief that falling prices are deflation

- a. implies that increases in production cause depression and thus unemployment
- b. represents support for consumptionism
- c. both (a) and (b)

_____ 41. The role of technological progress in relation to capital accumulation is

- a. to provide new and additional uses for an expanding supply of capital goods that results from saving
- b. to keep up the rate of profit and interest in the face of an expanding supply of capital goods that results from saving
- c. both (a) and (b)
- d. that of a major source of capital accumulation

_____ 42. According to consumptionism, technological progress

- a. raises the rate of profit and interest by providing new and additional investment opportunities

b. increases the supply of consumers' goods, thereby causing falling prices and deflation

c. both (a) and (b)

_____ 43. Consumptionism claims that

- a. the gain from foreign trade is in the exports, not the imports
- b. the gain from an increase in population is in the additional people's need and desire to consume, not in their contribution to production
- c. nonproducing consumers are a source of benefit to producers by providing an excess of consumption over production equal to the producers' alleged deficiency of consumption
- d. all of the above

_____ 44. Acceptance of the consumptionist premise leads serious people to regard capitalism as flawed by fundamental paradoxes and thus to be prone to seek an alternative.

_____ 45. In the light of his views on the economic effects of war and pyramid building, Keynes must be classified as a productionist.

SAY'S LAW (Chapter 13, PART B)

_____ 46. Monetary demand is

- a. the goods and services the monetary demand actually buys
- b. the amount of expenditure of money

_____ 47. Real demand is the amount of money really spent in the purchase of goods and services.

_____ 48. Real demand is

- a. the monetary demand adjusted for the wage and price level
- b. the quantity of goods and services that the monetary demand, whatever it is, is capable of actually buying
- c. both (a) and (b)

_____ 49. An example of a monetary demand is

- a. one trillion dollars
- b. one billion dollars
- c. ten trillion dollars
- d. one hundred dollars
- e. all of the above

_____ 50. The cause of a steadily rising aggregate monetary demand is

- a. an increase in the quantity of money
- b. an increase in the production of ordinary goods and services, such as shoes and television sets

_____ 51. A smaller monetary demand can constitute a larger real demand if prices are more than proportionately lower.

_____ 52. Increases in production and supply create real demand by virtue of

- a. raising the level of money incomes and thereby increasing purchasing power
- b. driving down prices and increasing the buying power of any given level of income and expenditure

_____ 53. Over a period of years, the quantity of money and volume of spending in the economic system double. Over the same period of years, aggregate production and supply remain constant.

- a. state the change in aggregate monetary demand
- b. calculate the change in the general consumer price level using the formula $P = D_c/S_c$
- c. calculate the change in aggregate real demand

_____ 54. Over a period of years, the quantity of money and volume of spending in the economic system double. Over the same period of years, aggregate production and supply also double.

- a. state the change in aggregate monetary demand
- b. calculate the change in the general consumer price level using the formula $P = D_c/S_c$
- c. calculate the change in aggregate real demand

_____ 55. Over a period of years, the quantity of money and volume of spending in the economic system remain constant. Over the same period of years, aggregate production and supply double.

- a. state the change in aggregate monetary demand
- b. calculate the change in the general consumer price level using the formula $P = D_c/S_c$

c. calculate the change in aggregate real demand

_____ 56. Increases in production and supply are essential to create more real demand, because

- a. increases in monetary demand taken by themselves serve merely to raise prices in the same proportion, with the result that the larger monetary demand buys no more, i.e., constitutes no more real demand, than did the smaller monetary demand before it
- b. only to the extent that there is an increase in production and supply will an increase in monetary demand be able to represent an increase in real demand, because only to that extent will prices not rise by as much as the increase in monetary demand
- c. both (a) and (b)

_____ 57. In the absence of more monetary demand, increases in production and supply create more real demand by means of driving down prices and correspondingly enlarging the purchasing power of the same amount of monetary demand.

_____ 58. Increases in production and supply are both necessary and sufficient to create more real demand.

_____ 59. Say's Law most closely relates to

- a. supply
- b. demand
- c. real demand
- d. aggregate real demand
- e. aggregate real demand as determined by aggregate supply

_____ 60. In a barter economy, the producers of potatoes, a good faced with an inelastic demand, double their production and supply, with the result that the exchange value of potatoes falls by more than half, say, to one-third.

- a. As a result, the supply of goods offered in exchange for potatoes is now only two-thirds as large as before and thus there is a one-third fall in the real demand for potatoes caused by the doubling of their supply.
- b. Aggregate real demand in the economic system as a whole, however, does not fall as the result of the fall in the real demand for potatoes, because the goods that the producers of things other than potatoes no longer exchange with the potato growers, they exchange with each other—e.g., the reduced demand for potatoes in terms of shirts is offset by an enlarged demand for shoes, eggs, bars of iron, etc., in terms of shirts, and similarly for all the other goods in terms of which the demand for potatoes has fallen; i.e., the fall in the other-goods demand for potatoes is offset by an equivalent rise in the other-goods demand for other goods.
- c. The doubled supply of potatoes constitutes a doubled potato demand for other goods.

d. All elements of the matter considered, the doubled supply of potatoes is accompanied by a precisely equivalent increase in economy-wide, aggregate real demand.

_____ 61. The losses of the potato growers in the preceding question are more than offset by the gains of producers in the rest of the economy because

- a. the reduction in the real demand for potatoes is accompanied by an equivalent rise in the real demand for goods other than potatoes
- b. the real demand for goods other than potatoes is also increased to the extent of the increase in the supply of potatoes
- c. both (a) and (b)

_____ 62. In the case of an inelastic industry demand for an individual good, such as potatoes, an increase in supply serves to reduce the volume of goods received by the producers in the industry concerned. Consequently, there is a reduction in the real demand for the products of this industry as the result of the increase in their supply and therefore Say's Law does not hold up in this case.

_____ 63. In the case of an inelastic industry demand for an individual good, such as potatoes, an increase in supply serves to reduce the volume of goods received by the producers in the industry concerned.

- a. Consequently, there is a reduction in the real demand for the products of this industry as the result of the increase in their supply.
- b. There is nonetheless an increase in aggregate real demand that is precisely equivalent to the increase in aggregate supply in the economy as a whole.
- c. both (a) and (b)

_____ 64. In a monetary economy, once again the supply of a good confronted with an inelastic demand, such as potatoes, doubles. The result is that this time the money price of the good falls by more than half, again, for the sake of simplicity, say, to one-third. The result is

- a. the potato growers take in two thirds the money they previously took in
- b. producers in the rest of the economy take in equivalently more money, as the buyers of potatoes now spend one-third of the money they used to spend in buying potatoes in buying goods other than potatoes
- c. the same total aggregate monetary demand is now a larger real demand to the extent that the increase in the supply of potatoes constitutes an increase in total aggregate supply
- d. all of the above

_____ 65. Even though an industry as a whole may lose when its supply increases, the individual producers within the industry who are responsible for the increase in its supply can nevertheless gain at the expense of a still greater loss on the part of the produc-

ers in the industry who have not increased their production.

_____ 66. If gradual, the adoption of improvements in the ability to produce can be accompanied by gains to all who adopt them, while the accompanying losses to the industry as a whole are suffered exclusively by the producers who fail to adopt the improvements.

_____ 67. The potato growers, who initially lose as the result of the doubling of the supply of potatoes, will

- never be able to make up their loss
- later on be able to gain from the improvement in the ability to produce potatoes
- gain from the improvement in the ability to produce potatoes once enough potato growers leave potato growing and move into other lines of production
- all of the above

_____ 68. Examples concerning the potato industry are provided

- to convey information about the potato industry
- as an illustration of the conditions faced by *any* industry with an inelastic demand for its products
- both (a) and (b)

The following six questions belong together, with later questions presupposing the context established by the earlier questions.

_____ 69. We start with a situation in which an industry confronted with an inelastic demand—again, for the sake of illustration, the potato industry—has increased its production, with the result that its sales revenue and the total income of its members have been reduced. In response to their lower incomes, some of the potato growers will give up potato growing and relocate in other industries, in which incomes have actually been elevated as part of the same process which has depressed the incomes of the potato growers. As a result of their movement into other lines

- the production of potatoes will decline and the price of potatoes will rise
- the incomes of the remaining potato growers will increase
- the income of producers in industries outside of potato growing will decline somewhat as the result of the influx of former potato growers
- all of the above

_____ 70. The process of adjustment described in the preceding question will go on until the incomes of the remaining potato growers are once again on a par with those outside of potato growing.

_____ 71. Meanwhile, though having risen from its low of one-third, the price of potatoes settles at a level far below its original level of one. In fact, if the dou-

bling of the supply of potatoes was brought about by virtue of the average potato grower being able to produce twice as many potatoes with the same labor as before, the price of potatoes will tend to settle at a price of one-half of its initial price, since at that price the remaining growers' incomes will come all the way back up to where they were before the increase in the supply of potatoes.

_____ 72. In the new equilibrium, assuming there has been no increase in the quantity of money and volume of spending, the potato growers, ex-potato growers, and those who never were potato growers all end up with their initial money incomes, buy potatoes at half the initial price, and, to the extent that they buy less than twice the quantity of potatoes as originally, spend less money in buying potatoes, and with the money left over from the purchase of potatoes are able to afford more of other goods. An expanded production of these other goods is made possible precisely on the foundation of labor released from potato growing.

_____ 73. The overall, long-run result of the increase in the ability to produce potatoes is that those who remain in potato growing come out ahead, the ex-potato growers come out ahead, and those who were non-potato growers from the beginning come out ahead.

_____ 74. The initial doubling in the supply of potatoes, when judged from the perspective of the final equilibrium, represents a

- a relative overproduction of potatoes
- a relative underproduction of goods other than potatoes
- both (a) and (b)

_____ 75. If the production of *everything*—from matches and salt to swimming pools and yachts—suddenly doubled overnight

- a general overproduction would exist
- as much under production would exist as overproduction
- both (a) and (b)

_____ 76. “‘Overproduction’ is never partial and relative, but always general and absolute.”

_____ 77. The economic system benefits even from an increase in the ability to produce goods with which people may already be fully sated, such as table salt. The source of the benefit in such a case is the ability to reduce the amount of labor applied to the production of the good with which people are sated and thus to have additional labor available to expand the production of other goods, with which, for the most part, people are very far from being sated.

_____ 78. The concentration of an increase in the ability to produce in the particular industry in which it originates often represents a less efficient use of the improvement than is possible if that particular industry expands less than the full amount by which the im-

provement would allow it to expand, and allows other industries to expand instead.

_____ 79. In the preceding question what decides which is the more efficient use is the marginal utility of additional supplies of the products of the industry where the improvement in efficiency takes place compared with the marginal utility of additional supplies of other products that could be produced in larger quantity if the necessary additional labor were made available from this industry. The relative marginal utilities determines the relative prices and profitability of the different products as their supply is increased.

_____ 80. What appears as an overproduction in an individual industry would often cease to appear as an overproduction if other industries could increase their production sufficiently.

_____ 81. The belief that a fall in general business profitability is the result of too much production reflects the fallacy of composition.

_____ 82. The general profitability of business

- depends on the difference between aggregate sales revenues and aggregate costs
- is independent of the level of physical production of ordinary goods, that is, of goods other than the monetary commodities gold and silver on a precious metal standard
- both (a) and (b)

_____ 83. The profitability of an individual industry is not independent of its level of physical production and will

- decline as its production increases
- decline as its production increases insofar as the increase in its production causes a decline in the marginal utility of its products relative to the marginal utility of products elsewhere in the economic system that can be produced with the same means of production

_____ 84. The profitability of an individual industry will not decline in the face of an increase in its production if at the same time the production of other industries increases to the point of equivalently reducing the marginal utility of their larger supplies.

_____ 85. The profitability of business in the aggregate depends on

- the level of physical production in the economic system
- the difference between the dollar amount of sales revenues and the dollar amount of costs irrespective of the level of physical production

_____ 86. The difference between the dollar amount of sales revenues and the dollar amount of costs is roughly equal to the difference between the demand for consumers goods and the demand for labor, i.e., to net consumption.

_____ 87. The sharp decline in profits and the greater difficulty of repaying debts that are the hallmarks of depressions are the result of

- falling prices caused by increased production
- a monetary contraction resulting in a decline in aggregate sales revenues

UNEMPLOYMENT (Chapter 13, Part C)

_____ 88. The repeated existence of long periods of mass unemployment proves that

- there is no inherent, ineradicable scarcity of human labor
- money wage rates can often be unduly high relative to the demand for labor for protracted periods

_____ 89. In a free labor market the existence of unemployment operates to drive down money wage rates by virtue of the competition of the unemployed for jobs and the desire of employers to take advantage of being able hire equally good but unemployed workers at lower wage rates.

_____ 90. In a free labor market the existence of unemployment is self-liquidating insofar as the reduction in money wage rates it brings about operates to increase the quantity of labor demanded.

_____ 91. In a free labor market the existence of unemployment automatically tends to reduce money wage rates to the level required to achieve full employment.

_____ 92. The fall in wage rates brought about in a free labor market in the process of eliminating unemployment is a fall not only in money wage rates but also an equivalent fall in real wage rates, i.e., in the buying power of the worker's wages.

_____ 93. The fall in money wage rates brought about in a free labor market in the process of eliminating unemployment is not accompanied by a fall in real wage rates insofar as prices also fall and insofar as the burden of supporting the unemployed is reduced.

_____ 94. If, in the process of eliminating unemployment, output per worker remains the same, it follows that the increase in employment would be accompanied by a proportional increase in the production and supply of consumers' goods and thus, assuming constant monetary demands both for consumers' goods and for labor, a fall in the prices of consumers' goods proportional to the fall in wage rates.

_____ 95. Real wages actually rise in connection with the fall in money wages that is necessary to achieve full employment

- a. if the increase in production and fall in prices is approximately the same as the increase in employment and fall in wage rates
- b. by virtue of the elimination of the burden of supporting the unemployed
- c. both (a) and (b)

_____ 96. The fall in wage rates and prices that is necessary to eliminate unemployment in a free labor market results in a reduction in the average rate of profit in the economic system.

_____ 97. In a context in which the aggregate demands for consumers' goods and labor remain the same, albeit at a lower level following a financial contraction, the fall in wage rates and prices that is necessary to eliminate unemployment does not result in a fall in the aggregate amount or average rate of profit in the economic system. This is because the difference between a given amount of demand for consumers' goods and a given amount of demand for labor implies a more or less unchanged difference between aggregate sales revenues and aggregate costs, hence a more or less unchanged amount of aggregate profit.

_____ 98. In a context in which the aggregate demands for consumers' goods and labor remain the same, increases in the production and supply of consumers' goods

- a. reduce prices in inverse proportion
- b. reduce unit costs in inverse proportion
- c. reduce profits per unit in inverse proportion
- d. leave total, aggregate profits unchanged because the reduction in profit per unit is offset by the increase in the number of units
- e. all of the above

_____ 99. Since mass unemployment would be eliminated by a fall in wage rates, which would increase the quantity of labor demanded, it follows that anything that stands in the way of a fall in wage rates operates to perpetuate mass unemployment.

_____ 100. Among the obstacles that have stood in the way of a fall in wage rates and the achievement of full employment are

- a. minimum wage legislation
- b. prounion legislation
- c. welfare legislation
- d. employer altruism
- e. executive branch pressure not to reduce wage rates
- f. all of the above

_____ 101. The fall in wage rates was held back in the early 1930's by the intervention of President Hoover, who at a series of White House conferences obtained the agreement of the leading businessmen of the country not to reduce wage rates. Hoover believed that a fall in wage rates was equivalent to a fall in total wage payments and would thus result in a reduction in consumer spending and a deepening of the depression.

_____ 102. The failure of wage rates to fall sufficiently in the early '30s led to a deepening of the depression by causing major postponements of investment spending, awaiting the necessary fall in wage rates. The reductions in investment spending in turn further reduced sales revenues, profits, and the ability of business firms to repay debts, thereby precipitating more bank failures and further declines in the quantity of money and volume of spending in the economic system.

_____ 103. When wage rates fall to the full employment point, payroll spending actually tends to increase rather than remain the same, because funds that had been held back from investment spending, awaiting the necessary fall in wage rates, now come out into the spending stream.

_____ 104. The sharply higher unemployment rates currently prevailing in France and Germany in comparison with the United States have nothing to do with greater government interference in wage rates in those countries but rather are the result of preparations for the adoption of the Euro currency unit.

_____ 105. Governmental encouragement of fiduciary media precipitates mass unemployment by bringing about increases in the level of spending in the economic system that are not sustainable. When spending drops, the quantities of goods and labor demanded at the prevailing level of prices and wages correspondingly falls, resulting in the emergence of corresponding unemployment.

_____ 106. Continuous economic progress would

- a. hold back investment because investments made in the future would be more efficient than investments made in the present
- b. would not hold back investment because today's investments would be as much more efficient compared with the investments of the past as the future's investments would be compared with today's

_____ 107. The prospect of falling prices due to economic progress should be expected

- a. to result in a postponement of consumer spending because of the prospect of being able to buy more cheaply in the future
- b. to result in a rise in consumer spending because of the prospect of being materially better off in the future
- c. to have no significant overall effect on consumer spending

_____ 108. Full employment was not achieved under the New Deal in the 1930s, despite a policy of large-scale money creation and rapid increases in total spending because the far more powerful labor-union movement created under the New Deal was able to increase wage rates at a substantial rate even in the midst of mass unemployment, with the result that the larger payrolls achieved by inflation could not employ corre-

spondingly more labor or, indeed, enough additional labor to make any major headway in eliminating unemployment.

_____ 109. In principle, a policy of inflating the money supply and thus artificially increasing the volume of spending is unlikely by itself to achieve full employment. This is because if monopoly labor unions and other government intervention prevent unemployment from being eliminated by a fall in wage rates, the same forces will likely operate to cause a rise in wage rates in the face of a rising demand for labor and thus to make the rising demand for labor incapable of eliminating the unemployment.

_____ 110. What made possible the achievement of full employment in World War II was

- a. the creation of a huge supply of additional needs in the form of the need for tremendous quantities of tanks, aircraft, and numerous other weapons
- b. massive wartime inflation of the money supply and consequent rapid increase in the volume of spending in the economic system
- c. massive wartime inflation of the money supply and consequent rapid increase in the volume of spending in the economic system, coupled with wage and price controls

_____ 111. The combination of wartime inflation and price and wage controls made it possible for the increase in spending to represent a more or less corresponding increase in the quantities of goods and labor demanded.

_____ 112. The additional employment achieved by a policy of inflation and government budget deficits represents a *decline* in the standard of living of most people insofar as the reemployed workers are employed in connection with government projects. This is because such workers are remunerated with the output of other people while their own output is of little or no value to those others, being called into being in fact for no other essential purpose than to secure them employment and income.

_____ 113. The full employment achieved in World War II represented a situation in which roughly half of the net output of the economic system was consumed in the war effort, e.g., in flying bullets, exploding

bombs and artillery shells, and in the rifles, cannons, tanks, planes, and ships required to fire or launch them. The effect was that while everyone worked and worked long and hard, the average member of the economic system obtained the material benefit of roughly only half of his labor.

_____ 114. Many people believed that World War II represented a period of prosperity because they measured their prosperity in terms of the amount of money they earned, which sharply increased as the result of the wartime inflation, and also felt themselves well off because of the unprecedented ease with which they could earn money. The ease with which money could be earned was an effect of the combination of the wartime inflation and price and wage controls, which, together, resulted in substantial shortages of goods and labor, making it very easy to find buyers for practically anything one had to sell.

_____ 115. Only the end of World War II and the return to peace made possible full employment with prosperity.

_____ 116. Full employment could be achieved and maintained

- a. through a monetary system free of contractions in aggregate spending
- b. the establishment of a labor market free of government interference
- c. both (a) and (b)

_____ 117. Von Mises denies that the fall in money wage rates needed to eliminate unemployment is accompanied by a fall in real wage rates.

_____ 118. Depressions are caused by excess inventory accumulation, proving once again that too much wealth can be a cause of poverty.

_____ 119. Excess inventories and depressions are both the result of the same cause, namely, inflation in the form of credit expansion.

_____ 120. Inventories can be viewed as deficient rather than excessive in a depression insofar as a larger volume of inventories would represent more capital and thereby act as a protection against the widespread bankruptcies that are an essential characteristic of depression.

Answers to Questions 1-120 on Chapter 13.

Question#	Correct Answer	Question#	Correct Answer	Question#	Correct Answer
PART A					
1	T	41	d	81	T
2	T	42	c	82	c
3	d	43	d	83	b
4	e	44	T	84	T
5	e	45	F	85	b
6	c	PART B		86	T
7	T	46	b	87	b
8	T	47	F	PART C	
9	F	48	c	88	b
10	c	49	e	89	T
11	d	50	a	90	T
12	e	51	t	91	T
13	T	52	b	92	F
14	T	53	2x, 2x, none	93	T
15	b	54	2x, none, 2x	94	T
16	d	55	none, 1/2, 2x	95	c
17	c	56	c	96	F
18	c	57	T	97	T
19	c	58	T	98	e
20	c	59	e	99	T
21	c	60	d	100	f
22	T	61	c	101	T
23	T	62	F	102	T
24	T	63	c	103	T
25	d	64	d	104	F
26	c	65	T	105	T
27	e	66	T	106	b
28	d	67	c	107	c
29	f	68	b or c	108	T
30	e	69	d	109	T
31	c	70	T	110	c
32	d	71	T	111	T
33	a	72	T	112	T
34	c	73	T	113	T
35	d	74	c	114	T
36	d	75	b	115	T
37	F	76	F	116	c
38	T	77	T	117	F
39	c	78	T	118	F
40	c	79	T	119	T
		80	T	120	T