

Chapter 14, Part A

_____ 1. According to the exploitation theory, capitalism is a system of virtual slavery, serving the narrow interests of a comparative handful of “exploiters”—the businessmen and capitalists—who, driven by insatiable greed and power-lust, exist as parasites upon the labor of the masses.

_____ 2. The essential claim of the Marxian exploitation theory is that all income naturally and rightfully belongs to the wage earners, but that under capitalism the wage earners receive only bare, minimum subsistence, while everything over and above this is expropriated by the capitalist exploiters in the form of profits, interest, and land rent, or, in the terminology of Marx, “surplus-value.”

_____ 3. Marx’s “absolutist” version of the labor theory of value differs in many ways from the labor theory of value of the classical economists.

_____ 4. Marx’s “absolutist” version of the labor theory of value ignores the role of

- a. demand and supply
- b. time
- c. the rate of profit
- d. differences in the value of labor
- e. all of the above

in determining the relative value of commodities

_____ 5. Marx’s “absolutist” version of the labor theory of value

- a. claims that the quantity of labor directly or indirectly expended to produce a product is the one and only circumstance governing its value
- b. implies that newly fermenting grape juice and 10-year old wine made from such grape juice must have the same value, if they are products of the same quantity of labor
- c. implies that the only thing which can explain why one product is more valuable than another is that it is the product of a larger quantity of labor
- d. implies that the products of a fully automated factory would not differ in value from the capital goods consumed to produce them
- e. implies that the only thing which explains why a product is more valuable than the capital goods that have been consumed in its production, and whose value passes over into it without increase or decrease, is the application of fresh labor in producing the product
- f. all of the above

_____ 6. Marx’s version of the labor theory of value implies that all value is added exclusively by the application of fresh labor.

_____ 7. The Marxian version of the “iron law of wages” claims that wages are determined by the quantity of labor required to produce the commodities constituting the wage earner’s minimum subsistence.

_____ 8. Profit or “surplus value,” according to Marx, is caused by virtue of the wage earner adding to the value of the capital goods he uses up in production a value corresponding to the number of hours of his labor, while he is paid a wage that corresponds only to the smaller number of hours required to produce his necessities.

_____ 9. According to Marx

- a. “surplus value” embraces profits, interest, and land rent (i.e., all incomes other than wages and salaries)
- b. necessary labor time is the time required to produce the wage earner’s necessities (minimum subsistence)
- c. surplus labor time is the amount of time by which the working day exceeds the necessary labor time
- d. surplus value corresponds to surplus labor time
- e. all of the above

_____ 10. According to Marx, capital has two components: “variable capital” and “constant capital.”

_____ 11. According to Marx, constant capital

- a. is the capital invested in materials, machinery, and structures
- b. passes over into the product with no alteration in its value
- c. is not value creating
- d. all of the above

_____ 12. According to Marx, “variable capital” is

- a. the part of capital that pays wages
- b. value creating in that the wages it pays correspond only to the number of hours of labor required to produce the wage earner’s necessities, while the number of hours of labor obtained for those wages is the larger number of hours represented by the full working day
- c. the source of profit or “surplus value”
- d. all of the above

_____ 13. According to Marx, the “rate of exploitation” equals the ratio of

- a. profits to wages
- b. “surplus value” to “variable capital”
- c. “surplus labor time” to “necessary labor time”
- d. all of the above

The following is a seven-part question.

You are given the following assumptions: The working day is 12 hours. “Necessary labor time” is 6 hours. The labor time embodied in the materials and machinery and other fixed capital used up is 48 hours. To each hour of labor embodied in a product, there corresponds \$1 of product value.

- _____ 14. Calculate “surplus labor time.”
- _____ 15. Calculate “the rate of exploitation.”
- _____ 16. Calculate the daily wage in dollars.
- _____ 17. Calculate the monetary value of the product.
- _____ 18. Calculate the monetary cost of producing the product.
- _____ 19. Calculate the monetary profit in producing the product.
- _____ 20. The monetary profit is
- the same as
 - greater than
 - less than
- the monetary value of the “surplus labor time.”
- _____ 21. According to the Marxian exploitation theory, profit rests on the same foundation as the gains of a slave owner, namely, the worker’s ability to work for more hours than is required to produce his subsistence or products of equivalent exchange value.
- _____ 22. According to Marx,
- the wage earner under capitalism is free only nominally; in substance he is a slave
 - the capitalist is essentially the same as a slave owner or feudal aristocrat
 - all of human history is the record of one continuous class struggle
 - all of the above
- _____ 23. According to Marx, all improvements in production either pass the wage earners by, to the extent they occur in goods that remain beyond the wage earners’ reach, or are the occasion for a cut in wage rates to correspond to the lower price of their necessities.
- _____ 24. Marxism implies that under laissez-faire capitalism, business publications would feature a set of financial statistics that they presently do not carry, namely, the prices of the things constituting the wage earner’s minimum necessities, such as mud cabin rentals and the price of loin-cloths and the very cheapest bread, to which the capitalists would peg wages, quickly reducing them every time the prices of such necessities fell.
- _____ 25. Marx’s doctrine of the progressive impoverishment of the masses holds that under capitalism, wages decline from subsistence to sub-subsistence—that “capitalism cannot maintain its slaves even in their slavery.”
- _____ 26. The basis of the doctrine of the progressive impoverishment of the masses is supposedly
- the fact that the capitalists are more calculatingly greedy than previous exploiters
 - the tendency toward a declining rate of profit as capital is accumulated, predominantly in the form of constant capital

- both (a) and (b)

The following is a three-part question. Assume that initially the total capital invested in the economic system is 100 monetary units, of which 25 is “variable capital” and 75 is “constant capital,” and that the “rate of exploitation” is 100 percent. In addition, assume that while everything else remains the same, the total capital invested in the economic system doubles over a period of years and that the entire increase in the amount of capital invested is in the form of constant capital.

- _____ 27. Calculate the initial average rate of profit in the economic system.
- _____ 28. Calculate the average rate of profit in the economic system after the doubling of capital invested.
- _____ 29. According to Marx, in order to forestall such a declining rate of profit, the capitalists will raise the rate of exploitation by such means as
- reducing hourly wage rates, thereby necessitating a longer working day and thus the working of additional surplus labor time and the corresponding creation of additional surplus value
 - reducing hourly wage rates to the point of rendering the labor of the adult male worker insufficient to support his family and necessitating that the labor of his wife and children be added to his labor, with a corresponding creation of still more surplus labor time
 - speeding up the general pace and intensity of work, in order to reduce the number of hours of labor required to produce the wage earner’s minimum necessities and thereby again increase surplus labor time and surplus value
 - cheapening the wage earner’s diet, say, by substituting for relatively expensive wheat bread such cheaper items of food as potatoes or rice
 - all of the above
- _____ 30. The influence of the exploitation theory is present in people’s beliefs about the functioning of
- the present, highly interventionist, welfare-state economic system
 - laissez-faire capitalism, under which there would be no minimum-wage, maximum-hours, pro-union, or child-labor legislation
 - the economic system in the 19th Century and the early part of the 20th Century, when there were no such laws as described in (b)
 - all of the above
 - (b) and (c) but not (a)
- _____ 31. The Marxian exploitation theory is the basis on which people understand both the very bad economic conditions of the past and the source of their improvement, namely, the lack of government economic intervention under laissez-faire and its subsequent progressive introduction.
- _____ 32. People believe for the most part that

- a. the wage increases caused by unions and minimum-wage laws come out of profits and correspondingly benefit the average worker, i.e., in effect represent forcing employers to proceed as though the necessary labor time were greater, with the result merely that surplus labor time and surplus value are less
- b. maximum-hours and child-labor legislation are at the expense merely of profits and represent a corresponding benefit for the average wage earner, i.e., in effect represent a reduction merely in surplus labor time and surplus value
- c. both (a) and (b)

33. From the perspective of Marxism, the confiscatory taxation of profits, interest, dividends,

capital gains, and land rents represents “the expropriation of the expropriators.”

34. The Marxian exploitation theory underlies the present-day “liberals’” beliefs
- a. concerning the effects of minimum-wage, pro-union, maximum-hours, and child-labor legislation
 - b. their belief in the justice of the confiscatory taxation of the capitalists’ incomes and the use of the proceeds to support social welfare spending, which arrangement they regard as constituting a measure of restitution to the victims of “exploitation”
 - c. both (a) and (b)

Chapter 14, Part B, The Productivity Theory of Wages

35. The exploitation theory appears plausible because

- a. wage earners need to work in order survive and are willing, if necessary, to work for minimum subsistence rather than die of starvation
- b. employers, like all other buyers, prefer to pay less rather than more
- c. when (a) and (b) are taken together, it appears that in the absence of government intervention, wage rates would plunge to the minimum-subsistence level before encountering any resistance to their fall
- d. all of the above

36. The need of wage earners to work and their willingness to work for minimum subsistence if necessary is irrelevant to the wages they must actually accept because human labor is fundamentally scarce and its price, like that of any scarce good, is determined by the competition of buyers, in this case employers, for the limited supply.

37. The desire of employers, like all other buyers, to pay less rather than more, i.e., lower wages rather than higher wages, is also irrelevant to the wages the workers must actually accept, because the rational self-interest of employers and all other buyers is not to attempt to pay the lowest price or wage they can imagine or would desire, such as minimum subsistence, but merely the lowest price or wage that is simultaneously *too high* for any other employer or buyer who would otherwise obtain the labor or good in question.

38. As wage rates fall below the free-market equilibrium level, a growing labor shortage develops, which makes it to the self-interest of employers desiring to employ more workers and keep the workers they have, to bid wage rates back up to the free-market equilibrium level.

39. A higher price or wage is never to the self-interest of a buyer/employer, as shown by the fact that it never pays a bidder at an auction to raise his bid.

40. A higher price or wage is to the self-interest of a buyer/employer when it serves to make the item too expensive for some other potential buyer/employer who otherwise would obtain it instead.

41. Money wage rates are determined by the utility and scarcity of labor on the one side and the quantity of money and volume of spending in the economic system on the other.

42. The fall in wage rates required to eliminate unemployment

- a. opens up the possibility of wages having to go to subsistence as the condition of achieving full employment
- b. is accompanied by more production and supply and also lower unit costs, either or both of which imply lower prices as the accompaniment of the lower wage rates and at the same time eliminates the burden of having to support the unemployed and thus actually tends to raise real take-home wage rates

The next 15 questions belong together and require the use of the wage and price-level formulas. The first twelve of these questions represent four groups of three questions each.

The following is a three-part question. Assume that the quantity of money and thus the aggregate monetary demands for consumers’ goods and labor both double, while the supply of labor, the productivity of labor, and the supply of consumers’ goods all remain the same.

_____ 43. What is the change in the general consumer price level?

_____ 44. What is the change in average money wage rates?

_____ 45. What is the change in average real wage rates?

The following is a three-part question. Assume that the quantity of money, the aggregate monetary demands for consumers' goods and labor, and the supply of labor all remain the same, while the productivity of labor and thus the supply of consumers' goods double.

_____ 46. What is the change in the general consumer price level?

_____ 47. What is the change in average money wage rates?

_____ 48. What is the change in average real wage rates?

The following is a three-part question. Assume that the quantity of money, the aggregate monetary demands for consumers goods and labor, and the productivity of labor and supply of consumers' goods all double, while the supply of labor remains the same.

_____ 49. What is the change in the general consumer price level?

_____ 50. What is the change in average money wage rates?

_____ 51. What is the change in average real wage rates?

_____ 52. What factor in the four preceding three-part problems determines the change, if any, in average real wage rates?

_____ 53. What factors in the same problems determine the change, if any, in average money wage rates?

_____ 54. What factors in those sets of problems determine the change, if any, in the general consumer price level?

This is a four-part question. Again using the formulas for the price and wage level, assume a fixed quantity of money and fixed aggregate demands for labor and consumers' goods. Assume also that all wage earners are married and that initially only husbands work. Then assume that all married women also go to work and have the same productivity as their husbands on average.

_____ 55. Calculate the effect on average money wage rates.

_____ 56. Calculate the effect on the general consumer price level.

_____ 57. Calculate the effect on the money income of the average working family.

_____ 58. Calculate the effect on the real income of the average working family.

This is a three-part question. Again using the formulas for the price and wage level, assume a fixed quantity of money and fixed aggregate demands for labor and consumers' goods. Assume also that over the course of a generation the size of the working population doubles as the result of immigration and, over the same period, thanks in some significant part to the productive contributions of the immigrants, the productivity of labor also doubles.

_____ 59. Calculate the effect on average money wage rates.

_____ 60. Calculate the effect on the general consumer price level.

_____ 61. Calculate the effect on the average real wage rates.

_____ 62. In the light of the formulas for the price and wage level and the critical role of the productivity of labor, it follows that phenomena which begin by reducing money wage rates, such as immigration or a larger labor force due to population growth or the participation of more married women, as well as the elimination of unemployment

- may well cause prices to fall by more than wage rates
- need not reduce real wage rates but can actually raise real wage rates
- will in fact end by raising real wage rates insofar as they serve to raise the productivity of labor and/or reduce the burden of supporting the unemployed
- all of the above

_____ 63. The cause of a rise in average money wage rates is either an increase in the demand for labor or a decrease in the supply of labor, both of which tend to raise prices as much as wages, which implies that a rise in money wage rates cannot be the cause of a rise in real wage rates.

_____ 64. If a rise in money wage rates is to represent a rise in real wage rates,

- it is essential that prices not rise as much as wage rates, since only that makes it possible for wage earners to succeed in actually buying more with their higher monetary earnings

- b. what stops prices from rising as much as wage rates when the quantity of money increases and raises the demand for consumers' goods as much as it raises the demand for labor is a rise in the productivity of labor
- c. a rise in the productivity of labor increases the supply of consumers' goods relative to the supply of labor and thus makes it possible for the essentially equal-proportional increases in the demand for consumers' goods and labor to be accompanied by an increase in the consumer price level that is less than the increase in the wage level
- d. all of the above

65. A rise in the productivity of labor is responsible for a fall in prices even in cases in which prices stay the same or increase in comparison with what they were in the past. In such cases, it is responsible for prices falling in comparison with what they otherwise would have been, had the increase in the productivity of labor not taken place.

66. Improvements in the productivity of labor raise average real wages

- a. by raising money wages
- b. by reducing prices not by raising money wages

67. As real wages have risen, so too have money wages, because

- a. the two phenomena are inseparably connected
- b. earning more money is the sum and substance of being materially better off
- c. the rise in the productivity of labor, which raises real wages, has been accompanied by an increase in the quantity of money, which raises money wages

68. An intrinsic but limited connection between higher average real wages and higher average money wages exists under a system of commodity money, such as a gold standard, insofar as improvements in the average productivity of labor are accompanied by improvements in the productivity of labor specifically in the production of the commodity that serves as money. This is because to this extent, the quantity of money and thus the monetary demand for labor can be expected to increase along with the general rise in the productivity of labor.

69. Any given individual is likely to perceive a close connection between improvements in his own, personal productivity of labor and the money wage rate he earns. This proves that

- a. a higher productivity of labor translates into higher monetary earnings rather than lower prices
- b. a higher *relative* productivity of labor on the part of a given individual translates into higher monetary earnings *for him* and correspondingly *lower* monetary earnings for those whose relative productivity of labor is reduced at the very same time that his is elevated

70. If everyone in a group of competitors increased the productivity of his labor to the same extent

- a. the improvement in the productivity of labor of any individual member of the group would not result in a rise in his money wage rate, for he would have no greater means of succeeding in the competition with the other members of the group now than he had before
- b. the average money wage rate of the members of this particular group might actually fall as the result of the improvement in their productivity of labor causing a relative oversupply of the product or service that they produced—a situation that often occurred following the adoption of piecework and the incentives it gave to become more productive
- c. both (a) and (b)
- d. neither (a) nor (b)

71. If all the members of a society improved the productivity of their labor equally and there were no change on the side of money and spending,

- a. average money income would stay the same and there would be no improvement in the average standard of living
- b. average money income would stay the same, prices would fall, and the average standard of living would improve correspondingly

72. If the adoption of piecework in a given branch of production, and the rise in the productivity of labor it causes in that branch, results in a fall in the average money income of the producers in that branch, this proves that

- a. piecework can be inimical to the general standard of living
- b. a situation essentially the same as that of the potato growers back in Chapter 13 is present, which means that the average standard of living does rise, because the gains of the rest of the economic system through a combination of lower prices and higher incomes outweigh the loss of the pieceworkers in this branch and, in addition, even the pieceworkers in this branch will ultimately gain, once enough of them have relocated into other lines of work, where their skills are more needed

73. In cases in which a rise in the productivity of labor in a given branch of the economic system reduces the average earnings of the members of that branch, it follows that none of the producers in that branch can monetarily gain from the improvement.

This is a four-part question. Assume that in a given case, the adoption of the piecework system results in a doubling of the productivity of labor and is followed by a reduction in the piece rate to one-third of its initial amount.

_____ 74. Calculate the change in the money income of the average piece rate worker in this case.

_____ 75. Calculate the change in the money income of any piece rate worker who has succeeded in quadrupling his particular productivity of labor

_____ 76. Calculate the change in the money income of any worker under the piece-rate system who, following its adoption, has failed to increase his particular productivity

_____ 77. The piece rate system, even in cases in which its adoption initially serves to reduce the average level of money income in the branch of production in which it is adopted, can nevertheless be of financial benefit to exceptional individual workers in that branch—i.e., those whose productivity increases more than in proportion to the fall in the piece rate.

This is a seven-part question. Assume that half of the working population succeeds in doubling its productivity of labor, while the productivity of labor of the other half remains the same. Ignore the likely resulting short-run problems of relative, partial overproduction and relative, partial underproduction. As with many previous questions, assume that the quantity of money and thus the aggregate demands for consumers' goods and labor remain the same. Assume further that relative incomes will be in proportion to relative productivity, so that the fifty percent of the population that becomes twice as productive will earn twice the income as the fifty percent of the population whose productivity remains the same.

_____ 78. State the now larger aggregate output relative to the initial aggregate output.

_____ 79. Calculate the effect of the larger supply on the general consumer price level.

_____ 80. Calculate the change in the money income of the members of the group whose productivity of labor doubles and who now earn two-thirds of the total income of the society instead of one-half.

_____ 81. Calculate the change in the money income of the members of the group whose productivity of labor remains unchanged and who now earn one-third of the total income of the society instead of one-half.

_____ 82. Calculate the change in the *real* income of the members of the group whose productivity of labor doubles.

_____ 83. Calculate the change in the *real* income of the members of the group whose productivity of labor remains unchanged.

_____ 84. Name the element to which the change in the real income of both groups corresponds.

_____ 85. If in the course of economic competition, the success of the members of one group in raising their productivity serves to reduce the money incomes of the members of another group, it follows that the members of the first group have economically harmed the members of the second group. (Answer in the light of your answers to the preceding series of questions.)

This is a 12-part question. Assume that initially an egalitarian society exists in which everyone has the same productivity of labor and earns the same money income. Now, perhaps because of exposure to rays from outer space, five percent of the population becomes energized into becoming the most intelligent, ambitious and hardest-working five percent, whereupon it succeeds in increasing its own productivity of labor a full twelvefold. The process of increasing the productivity of its own labor entails such things as the members of this five percent founding and organizing business firms and introducing new, improved methods of production and new, improved products. As a result, in the course of improving the productivity of its own labor, the activities of the five percent serve to double the productivity of labor of the remaining ninety-five percent of the population, which is induced to work with the newer, better methods of production and to produce the newer, better products. As before, assume that the relative incomes of the two groups will be in proportion to their relative production. As usual, assume that the quantity of money and thus the aggregate demands for consumers' goods and labor remain the same.

_____ 86. State the now larger aggregate output relative to the initial aggregate output. (You must add $12x.05$ plus $2x.95$.)

_____ 87. State the resulting general consumer price level as a decimal of the original consumer price level.

_____ 88. Calculate the percentage of the total monetary income of the economic system, which now accrues to the 5 percent of the population that has increased its productivity of labor twelvefold. (You need to know the output of this group relative to total output.)

_____ 89. Calculate the change in the money income of the 5 percent of the population whose productivity of labor increases twelvefold. (To do this state the new percentage of income going to this group as a

decimal and then divide it by .05, which was the initial income of this group.)

_____ 90. Calculate the percentage of the total monetary income of the economic system, which now accrues to the 95 percent of the population that has increased its productivity of labor twofold. (Again, you need to know the output of this group relative to total output.)

_____ 91. Calculate the change in the money income of the 95 percent of the population. (To do this state the new percentage of income going to this group as a decimal and then divide it by .95, which was the initial income of this group.)

_____ 92. Calculate the change in the *real* income of the 95 percent of the population. (To do this you need to divide the change in the group's money income by the change in the general consumer price level. Your answer should be 2.)

_____ 93. Calculate the change in the real income of the 5 percent of the population whose productivity of labor increases twelvefold. (Follow the same procedure as in the preceding question. Your answer should be 12.)

_____ 94. How much more does the average member of the 5 percent group earn than the average member of the 95 percent group? (You need to divide each group's percentage of total earnings by its percentage of population and then divide the per capita earnings of the 5 percent group by those of the 95 percent group.)

_____ 95. How much more does the average member of the 95 percent group earn in real terms by virtue of the activities of the members of the 5 percent group?

_____ 96. How much more will the average member of the 95 percent group earn in real terms if the improvements introduced by members of the 5 percent group serve to double the productivity of labor of the members of the 95 percent group every generation?

_____ 97. The preceding all goes to show how in a capitalist society

- the rich get richer and the poor get poorer
- the material self-interests of rich and poor are harmonious, with the "poor" becoming progressively richer, thanks precisely to the activities of the rich
- injustice exists because the rich are always several steps ahead of the poor, no matter how much richer the poor are becoming

_____ 98. The productive contribution of businessmen and capitalists is manifested precisely in the determination of the exchange value of products largely by the quantity of labor required to produce them, because the activity of the businessmen and capitalists serves continually to reduce those quantities and thus to make the prices of goods continually to fall relative

to wage rates and thereby continually to raise real wage rates.

_____ 99. Show mathematically how, starting with the formulas for the price and wage level, real wage rates are expressible as the product of the productivity of labor times the "distribution factor." Be sure to indicate the mathematical meaning both of the productivity of labor and the "distribution factor."

_____ 100. Real wages depend on the productivity of labor; the productivity of labor, in turn, depends on the supply of capital goods per worker.

_____ 101. The determinants of the supply of capital goods are

- the extent to which the economic system devotes labor and existing capital goods to the production of capital goods relative to the extent to which it devotes labor and existing capital goods to the production of consumers' goods
- the productivity of labor and existing capital goods
- the demand for capital goods relative to the demand for consumers' goods
- all of the above

The following is a 6-part question.

_____ 102. Capital goods are continuously used up and worn out in the course of production and thus must continuously be produced if their supply is to be maintained.

_____ 103. The proportion of the economic system's existing output that must be devoted to the production of capital goods if their supply is to be maintained is called the maintenance proportion.

_____ 104. In order for capital accumulation to take place, it is necessary for the actual proportion of the economic system's existing output that is devoted to the production of capital goods to exceed the maintenance proportion.

_____ 105. The demand for capital goods relative to the demand for consumers' goods determines the production of capital goods relative to the production of consumers' goods and thus whether or not the proportion of the economic system's output that is devoted to the production of capital goods will equal, exceed, or fall short of the maintenance proportion.

_____ 106. The demand for capital goods relative to the demand for consumers' goods depends on the extent to which individuals and business firms devote their revenues and incomes to saving and productive expenditure rather than to consumption expenditure.

_____ 107. The greater is the degree of saving and productive expenditure relative to consumption expenditure

- the higher will be the demand for capital goods relative to the demand for consumers goods

- b. the greater will be the production of capital goods relative to the production of consumers' goods
- c. once beyond the maintenance proportion, the more will the production of new capital goods tend to exceed the productive consumption of existing capital goods and thus the more rapidly will the supply of capital goods tend to increase
- d. the higher and more rapidly rising will the productivity of labor and thus real wages tend to be
- e. all of the above
- _____ 108. The productivity of capital goods is the ratio of output to the supply of capital goods used up in producing the output.
- _____ 109. The higher is the productivity of capital goods,
- the lower is the maintenance proportion
 - the easier it is to accumulate capital
 - the more rapidly will capital accumulation take place for any given relative production of capital goods in excess of the maintenance proportion
 - all of the above
- _____ 110. Technological progress
- serves to maintain the productivity of capital goods in the face of increasing supplies of capital goods
 - offsets the operation of the law of diminishing returns in the face of increasing supplies of capital goods
 - is an essential requirement of continued capital accumulation
 - all of the above
- _____ 111. The higher is the productivity of capital goods, the higher is the proportion of output that needs to be devoted to the production of capital goods in order to maintain the supply of capital goods.
- _____ 112. The economic degree of capitalism is the ratio of productive expenditure for capital goods and labor to business sales revenues.
- _____ 113. The "distribution factor" is the ratio of the demand for labor by business to the demand for consumers' goods from business.
- _____ 114. The higher is the distribution factor, the higher tends to be the proportion of national income that is constituted by wages.
- _____ 115. The higher is the economic degree of capitalism
- the higher is the demand for capital goods relative to the demand for consumers' goods
 - the higher is the distribution factor
 - the higher and more rapidly rising are real wages
 - all of the above
- _____ 116. Saving underlies capital accumulation insofar as it determines the demand for and production

of capital goods relative to the demand for and production of consumers' goods.

- _____ 117. Technological progress
- is essential for continued substantial capital accumulation
 - depends on an increasing supply of capital goods as the means of implementing more advanced technologies
 - both (a) and (b)
- _____ 118. Insofar as businessmen and capitalists are motivated to save and productively expend and to improve the methods of production, the effect of their activities is
- to increase the demand for and production of capital goods relative to the demand for and production of consumers' goods and thus to bring about capital accumulation and a rising productivity of labor
 - to change the distribution factor in favor of wage earners by means of raising the demand for labor by business relative to the demand for consumers' goods
 - to maintain or increase the productivity of capital goods and thereby further contribute to capital accumulation and the rise in the productivity of labor
 - to raise real wages
 - all of the above
- _____ 119. Capital accumulation is fostered by
- saving
 - technological progress
 - international free trade
 - economic freedom in general
 - all of the above
- _____ 120. The concept that subsumes both technological progress and economic freedom as causes of capital accumulation is
- saving
 - a rise in the productivity of capital goods
 - both (a) and (b)
- _____ 121. The ultimate foundations of capital accumulation and a rising productivity of labor and real wages are
- individual freedom to pursue one's material self-interest
 - a substantially rational cultural environment
 - both (a) and (b)
- _____ 122. Saving and productive expenditure and thus the demand for and production of capital goods are reduced by
- the corporate income tax
 - the progressive personal income tax
 - the inheritance tax
 - the social security system
 - all of the above

_____ 123. Government budget deficits reduce or retard

- a. the demand for private securities
- b. productive expenditure
- c. the demand for and production of capital goods relative to the demand for and production of consumers' goods
- d. capital accumulation
- e. the productivity of labor
- f. real wages
- g. all of the above

_____ 124. Government budget deficits financed by inflation of the money supply promote capital accumulation.

_____ 125. Capital accumulation under capitalism was inaugurated by a rise in the economic degree of capitalism, combined with a rise in the efficiency with which existing capital goods were employed, both of which operated to raise real wage rates from the very beginning.

_____ 126. The effect of the higher economic degree of capitalism was a rise in the demand for labor alongside the rise in the demand for capital goods.

_____ 127. The Industrial Revolution

- a. represented a great increase in the efficiency of production and in the use of existing capital goods
- b. brought about a sharp decrease in the maintenance proportion
- c. was accompanied by capital accumulation that took place out of an increase in production rather than as the result of any absolute fall in per capita consumption
- d. all of the above

_____ 128. If and when it occurs, a rise in the demand for capital goods at the expense of the demand for labor is

- a. permanently against the interests of the wage earners because it operates to reduce wage rates
- b. ultimately accompanied by a fall in the prices of consumers' goods that is greater than the fall in wage rates and is so by an ever wider margin

_____ 129. It is almost impossible that the inauguration or intensification of capital accumulation and economic progress in a capitalist country could ever result in a reduction in average real wages that would not be made good very quickly. This is because

- a. the basic effect of a higher economic degree of capitalism is to raise the demand for labor, as well as the demand for capital goods, relative to consumption and total sales revenues in the economic system
- b. at the same time, the higher economic degree of capitalism is itself part of an even wider process which has as another major effect a rise in the productivity of capital goods and corresponding fall in the maintenance proportion

- c. any rise in demand for capital goods at the expense of the demand for labor that might take place, despite the fundamental background of a rise in the demand for both, would not take place suddenly and dramatically, all at once, but only gradually, over a period of years, with the result that each succeeding year over which the process occurred would benefit from the operation of forces already in place that were working to bring about a rise in real wages
- d. all of the above

_____ 130. In the case of the Industrial Revolution in England, the process of capital intensification and the corresponding rise in the ratio of the value of accumulated capital to wage payments, appears to have taken place and been largely completed in the century and a half or more prior to 1775—the year usually taken as marking the beginning of the Industrial Revolution. This was manifested in the fall in the rate of interest on long-term government bonds in England to 3 percent as early as 1757.

_____ 131. Capital accumulation under capitalism must initially reduce real wages because getting the process started requires a sudden sharp drop in the demand for labor by business in order to make possible the necessary rise in the relative demand for and production of capital goods.

_____ 132. The bad economic conditions of the average worker in Great Britain in the early years of the Industrial Revolution were the result of

- a. twenty-five years of almost uninterrupted war with France between 1790 and 1815
- b. taxes and loans that deprived business firms of the ability both to pay wages and to buy capital goods and thereby worked against real wages via both the “distribution factor” and the productivity of labor
- c. both (a) and (b)

_____ 133. In a socialist country, such as Soviet Russia, with its gross inefficiencies and impossibly high maintenance proportion, any capital accumulation that may occur based on domestic sources is likely to be at the expense of the extreme deprivation of the citizens.

_____ 134. The low real wages, long hours of work, and poor working conditions that characterized much of the nineteenth century were the result of

- a. a low productivity of labor
- b. the greed of the capitalists and a correspondingly unjust distribution of wealth and income

_____ 135. As the productivity of labor rose over the course of the nineteenth century,

- a. the supply of goods increased relative to the supply of labor
- b. prices fell relative to wage rates
- c. wage rates rose relative to prices
- d. real wage rates rose

e. all of the above

_____ 136. As real hourly wage rates rose in the nineteenth century, the hours of work could fall because

- more and more workers could afford to accept jobs requiring shorter hours and paying less than jobs requiring longer hours
- it became competitively advantageous for employers to offer shorter hours, as more and more workers were placed in a position of being able to afford to take jobs with shorter hours at wages lower by enough to make their offer profitable
- in accordance with the growing ability of workers to afford to accept jobs with shorter hours and their growing desire for same, the market started to create a wage premium for jobs with longer hours and a wage discount for jobs with shorter hours
- all of the above

_____ 137. As real hourly wage rates rose in the nineteenth century, child labor could disappear because more and more parents could afford to keep their children home longer and longer and at the same time increasingly desired to do so.

_____ 138. As real hourly wage rates rose in the nineteenth century, working conditions improved because

- the same process of technological progress that was essential to the rise in the productivity of labor made possible improvements in working conditions technologically possible
- to the extent that improvements in working conditions contributed to greater efficiency and could be implemented at a smaller and smaller real cost, it increasingly paid employers to adopt them
- the rise in real wages enabled workers to afford to accept lesser increases in real wages in cases in which improvements in working conditions did not increase efficiency or did not do so sufficiently to pay for themselves
- all of the above

_____ 139. A rise in the productivity of labor is

- one possible cause of a sustained, significant increase in real wage rates, a redistribution of wealth and income being another
- one possible cause of a sustained, significant increase in real wage rates, an increase in the demand for labor being another
- the only possible cause of a sustained, significant increase in real wage rates
- all of the above

_____ 140. A rise in money wage rates constitutes a rise in real wage rates when it takes place by means of

- an increase in the quantity of money and volume of spending in the economic system

b. a decrease in the supply of labor available to work

- an increase in the demand for labor at the expense of the demand for capital goods
- an increase in the demand for labor by means of taxation the proceeds of which is used to pay wages
- all of the above
- none of the above

_____ 141. It is possible to raise real wage rates by means of raising the demand for labor and thus money wage rates

- when the rise in demand for labor is made possible by a fall in the personal consumption of businessmen and capitalists
- when the rise in demand for labor is made possible by a fall in taxation and government spending
- both (a) and (b)
- neither (a) nor (b)

_____ 142. A reduction in government spending and taxation

- can make a significant one-time contribution to raising real wage rates by means of raising the demand for labor
- makes an ultimately much more important, continuing contribution to the rise in real wage rates by means of bringing about an increase in the relative demand for and production of capital goods and by operating to raise the productivity of capital goods via increasing the incentives to introduce improvements
- both (a) and (b)

_____ 143. A policy of redistribution of wealth and income

- assumes that the wealth of businessmen and capitalists exists in the form of a vast supply of consumers' goods and can be taken with little or no effect on the amount of wealth produced
- ignores the fact that the great bulk of the wealth of businessmen and capitalists exists in the form of capital goods and underlies the demand for labor, and that its seizure must cause substantial capital decumulation and a decline in the productivity of labor and real wages
- both (a) and (b)

_____ 144. The general public and the labor unions

- correctly
- mistakenly

believe that raising money wage rates is the means of raising real wage rates.

_____ 145. The efforts of individuals, who must operate under the freedom of competition, to raise their real wages by means of earning more money are perfectly reasonable, fully consistent with the productivity theory of wages, and serve to raise the average level of real wage rates. However, the attempt to raise

the average money wage rate of wage earners as a group, by means of violating the freedom of competition, serves to cause unemployment and lower real wages.

- _____ 146. Depending on the extent of their influence, the effect of labor unions is
- to raise the wage rates of some groups of workers artificially while more than equivalently reducing the real wage rates of other groups of workers
 - to cause unemployment
 - both (a) and (b)
- _____ 147. Labor unions are
- a genuinely pro-labor institution insofar as they achieve increases in money wage rates, because that is the most effective means of raising the general level of real wage rates
 - an anti-labor institution insofar as in preventing or delaying the introduction of labor-saving improvements and in other ways holding down the productivity of labor, they actively combat the rise in real wage rates
 - both (a) and (b)
- _____ 148. When labor unions recognize a connection between the productivity of labor and wages, the connection they seek to establish is between a higher productivity of labor and
- higher money wage rates
 - lower prices
- _____ 149. According to the belief that a higher productivity of labor should translate into correspondingly higher money wage rates
- the wages of workers producing such goods as computer memory and computer hard drives, where there has been an enormous rise in the productivity of labor over the last fifteen or twenty years, should have increased correspondingly
 - the wages of workers like waiters or busboys in restaurants, where there has been virtually no rise in the productivity of labor for many generations, should have remained essentially unchanged over this time
 - both (a) and (b)
- _____ 150. According to the productivity theory of wages, among the consequences of minimum wage legislation are:
- unemployment, especially among the least educated, least skilled members of society
 - a life-long depressing effect on the earnings of society's most disadvantaged members, who in being prevented from being employed in entry level jobs at sub-minimum wages, are prevented from gaining the experience and developing the skills that might have enabled them to become qualified for better paying jobs later on
 - both (a) and (b)
- _____ 151. According to the productivity theory of wages, maximum-hours legislation

- forces people to do less work than they are willing and able to do
- reduces the real wages of people to the extent that it reduces the work they perform
- both (a) and (b)

The following is a four-part question. Assuming that the monetary demands for consumers' goods and labor are both unchanged,

- _____ 152. Calculate the effect on average hourly wage rates of a twenty-five percent reduction in the work week from forty hours to thirty hours.
- _____ 153. Calculate the effect on the production and supply of consumers' goods of the above reduction in the work week on the further assumption that the productivity of labor remains constant per hour worked.
- _____ 154. Calculate the effect on the prices of consumers' goods of the reduction in the supply of consumers' goods calculated in answer to the previous question.
- _____ 155. Calculate the effect on average real weekly wage rates on the basis of the change in the relationship between average weekly money wage rates and the general consumer price level.
- _____ 156. Maximum-hours legislation does not reduce real wages when hourly wage rates are increased to offset the reduction in hours, because in this case weekly wage rates are unchanged.
- The following is a four-part question.** Assuming that the monetary demands for consumers' goods and labor are both unchanged, and that in a poor, backward society, the labor of children initially accounts for ten percent of the supply of labor and produces ten percent of the output of consumers' goods, calculate the effect of the abolition of all child labor on
- _____ 157. The money income of the average working family.
- _____ 158. The supply of consumers' goods produced.
- _____ 159. The general consumer price level.
- _____ 160. The real wages of the average working family.
- _____ 161. According to the productivity theory of wages, the effect of child labor legislation is
- simply to eliminate child labor
 - in the absence of offsetting increases in the productivity of labor, to reduce the real earnings of poor families at the same time that it eliminates child labor

_____ 162. According to the productivity theory of wages, the effect of forced improvements in working conditions is

- a. a rise in costs of production and prices
- b. unemployment or a fall in take-home money wage rates sufficient to offset the rise in costs caused by the forced improvements
- c. a fall in real take home wages
- d. all of the above

_____ 163. According to the productivity theory of wages, the effect on real wages of freedom of competition in the employment of women and members of minority groups is positive despite a possible reduction in the money wage rates of those already employed

- a. to the extent that it succeeds in raising the average productivity of labor and thus reduces prices relative to wage rates
- b. to the extent that it enables the average working family to have the benefit of a larger number of hours of labor
- c. both (a) and (b)

_____ 164. The effect of the competition of women and members of minority groups entering the labor market

- a. under economic freedom is not unemployment but a reduction in money wage rates and an increase in the supply of goods produced and a corresponding fall in the prices of goods

- b. in the face of prounion and minimum wage legislation and racial and sexual quotas, the creation of unemployment among white male workers
- c. both (a) and (b)

_____ 165. The concept of the aggregate demand for labor employed by the productivity theory of wages is fundamentally different than the classical economists' concept of the wage fund.

_____ 166. John Stuart Mill abandoned the idea of a fixed wage fund on the grounds that a rise in wage rates compelled by labor unions could result in a rise in the wage fund at the expense of the personal consumption expenditure of businessmen and capitalists.

_____ 167. The productivity theory of wages and the *marginal* productivity theory of wages differ with respect to

- a. the attempt to derive the value of labor services on the basis of the value of product lost by virtue of the withdrawal of a unit of labor
- b. the significance they accord to changes in prices as a factor determining real wages
- c. both (a) and (b)

_____ 168. Attempting to derive the value of complementary factors of production from the value of their product, e.g., derive the value of a steering wheel, carburetor, and brake from the value of the automobile in which they are parts, easily results in the attribution of far more value to such factors of production than is possessed by the product.

Answers to Questions 1-168 on Chapter 14

Q. #	Correct Answer	Q. #	Correct Answer	Q. #	Correct Answer	Q. #	Correct Answer
1	T	43	2x	85	F	127	d
2	T	44	2x	86	2.5	128	b
3	T	45	none	87	0.4	129	d
4	e	46	halves	88	24%	130	T
5	f	47	none	89	4.8	131	F
6	T	48	2x	90	76%	132	c
7	T	49	none	91	.76/.95	133	T
8	T	50	2x	92	2	134	a
9	e	51	2x	93	12	135	e
10	T	52	prod. of labor	94	6	136	d
11	d	53	DL, SL	95	2x	137	T
12	d	54	DC, SC	96	2x more/gen.	138	d
13	d	55	halve	97	b	139	c
14	6 hours	56	halve	98	T	140	F
15	100%	57	none	99	see text	141	c
16	\$6	58	2x	100	T	142	c
17	\$60	59	half	101	d	143	c
18	\$54	60	one-fourth	102	T	144	b
19	\$6	61	2x	103	T	145	T
20	a	62	d	104	T	146	c
21	T	63	T	105	T	147	b
22	d	64	d	106	T	148	a
23	T	65	T	107	e	149	c
24	T	66	b	108	T	150	c
25	T	67	c	109	d	151	c
26	c	68	T	110	d	152	four thirds
27	25%	69	b	111	F	153	three fourths
28	12.50%	70	c	112	T	154	four thirds
29	e	71	b	113	T	155	three fourths
30	e	72	b	114	T	156	F
31	T	73	F	115	d	157	no change
32	c	74	two thirds	116	T	158	nine tenths
33	T	75	four thirds	117	c	159	ten ninths
34	c	76	one third	118	e	160	nine tenths
35	d	77	T	119	e	161	b
36	T	78	three halves	120	b	162	d
37	T	79	two thirds	121	c	163	c
38	T	80	four thirds	122	e	164	c
39	F	81	two thirds	123	g	165	F
40	T	82	2	124	F	166	T
41	T	83	1	125	T	167	c
42	b	84	prod. of labor	126	T	168	T