

Study Questions for George Reisman's *Capitalism: A Treatise on Economics*

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CHAPTER 6. DEPENDENCE OF THE DIVISION OF LABOR ON CAPITALISM II: THE PRICE SYSTEM AND ECONOMIC COORDINATION PART A. UNIFORMITY PRINCIPLES

1. What is the uniformity-of-profit principle and how does it work?
2. How does the uniformity-of-profit principle counteract, delimit, and prevent the mistakes of relative overinvestment and overproduction and relative underinvestment and underproduction, and thus promote coordination in the relative size of the various branches of production?
3. How does the uniformity-of-profit principle give consumers the power to change the pattern of production, i.e., to cause industries to expand or contract?
4. Explain why insofar as goods are produced in a free market to which various people object--such as allegedly nonnutritious breakfast cereals, automobiles without seatbelts or airbags, trashy or pornographic literature, alcoholic beverages, cigarettes, and so on--the logical targets of the complaints are the consumers, even though the actual targets are almost always the manufacturers.
5. How does the uniformity-of-profit principle operate to bring about a progressive increase in production?
6. If the uniformity-of-profit principle implies increasing production and falling prices, why do we almost always observe rising prices instead of falling prices? Is this a contradiction of the uniformity-of-profit principle?
7. What do claims about "planned obsolescence" imply about the operation of the uniformity-of-profit principle? Are such claims well founded? Explain.
8. How do cost cuts operate to expand production in the economic system?
9. How does successfully anticipating changes in consumer demand operate to increase the gains from economic progress?
10. What is a minimum price control? What is a maximum price control?
11. Use the uniformity-of-profit principle to trace the effects of repealing a minimum price control, such as those on many agricultural commodities. What would be the initial effect on price and profitability? The subsequent effects?
12. Use the uniformity-of-profit principle to trace the effects of repealing a maximum price control, such as rent control or a price control on oil and gasoline. What is the initial effect on price and profitability? The subsequent effect? Has the repeal of price controls on oil worked out differently than the theory indicates?
13. Explain why it is reasonable that people are able to borrow money to the extent that they already have money.
14. Explain why there is a tendency toward the existence of a uniform price for the same good throughout the world.
15. Is this principle contradicted by the existence of tariffs?
16. Explain how the existence of this principle operates to minimize the effects of local supply failures and to prevent famines.
17. Explain how the operation of this principle could have mitigated the effects of the Arab oil embargo. Explain what prevented it from doing so.

18. Explain why the belief that if a country has lower tariffs than its trading partners it is at a disadvantage, is equivalent to the belief that if the winds and the ocean currents run toward it and cause its inbound transportation costs to be less than its outbound transportation costs, it is at a disadvantage.
19. Explain why there is a tendency for the price of a good in the present to equal its expected price in the future.
20. Explain how the existence of this principle operates to minimize scarcities over time.
21. In the light of this principle, appraise the role of commodity speculation.
22. Explain how a price control can turn a scarcity of a storable good into a famine.
23. Explain why speculators as a class cannot profit from price increases caused by their own activity.
24. Explain why there is a tendency toward a uniformity of wage rates for workers of the same degree of skill and ability.
25. Does the operation of this principle require that forty-year olds be willing to change careers for ten or twenty percent pay differences? Why not?
26. How does the uniformity-of-wages principle give the consumers the power to determine the relative size of the various occupations?
27. Explain what kind of factors introduce permanent inequalities in wage rates at any given level of skill and ability.
28. Explain why there are permanent inequalities of wage rates between unskilled, skilled, and professional-level workers.
29. Explain the effects of a rise (fall) in the demand for the products and services of skilled labor relative to unskilled labor on the wages of the two groups. What does this imply about the role of the consumers in setting wage rates?
30. Explain why the wages of star performers can exceed the wages of other workers practically without limit and not result in any increase in supply. What does set the limit to the wages of star performers?
31. It is frequently claimed that capitalism discriminates against blacks by paying them less than whites for doing the same work, and by denying them entry into the better paying jobs. Appraise this claim in the light of the uniformity-of-profit principle and the uniformity-of-wages principle.
32. It has been claimed that capitalism discriminates against blacks by charging them higher rents for the same housing and higher prices for the same goods. Appraise this claim in the light of the uniformity-of-profit principle Explain how cost of production indirectly and directly influences the prices of products.
33. Explain why cost of production cannot be an ultimate explanation of prices, but leads back to supply and demand as the ultimate explanation.

PART B. ALLOCATION PRINCIPLES

1. Explain which kinds of prices are directly determined by supply and demand and which are determined directly on the basis of cost of production.
2. Explain the role of the quantity of money and consumer preferences in the determination of prices based on supply and demand.
3. Explain the significance of prices of consumers' goods determined by supply and demand (a) in preventing shortages, (b) in serving the self-interests of buyers as well as sellers, and of poor buyers as well as rich ones, and (c) in determining the distribution of goods and services in limited supply.

4. Explain the significance of prices of factors of production in limited supply in regard to points (a), (b), and (c) of the preceding question and with respect to the allocation of the factors of production among the competing uses for them.
5. Explain how the factors of production are allocated to their most important uses.
6. Explain how the concept "most important uses" is actually a variable range determined by the supply of the factor available.
7. Explain how a free market operates to maximize gains and minimize losses in connection with increases or decreases in the supply of a factor of production.
8. Explain how price controls during the Arab oil embargo led to submarginal uses of oil being able to go on obtaining supplies at the expense of far more important uses of oil.
9. Explain how cost calculations operate to lead each product to be produced by methods that least impair production in the rest of the economic system.
10. Explain how price controls during the Arab oil embargo prevented the economic system from adopting a rationally planned response to the reduction in oil supplies.