

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

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THE ROLE OF MONEY-MAKING IN PRODUCTIVE ACTIVITY (Chapter 11, Part A)

Note: the questions on Chapter 11 are preliminary to the questions on Chapter 15.

1. Describe the influence of the doctrine that productive activity is synonymous with manual labor--i.e., state who are the leading parties that accept the doctrine and what prominent activities of a capitalist society it implies are unproductive.
2. Explain how the doctrine is a heritage from the non-division-of-labor societies of old.
3. Explain why, in the context of a division-of-labor society, money making is an essential aspect of productive activity.
4. Explain why bank robbery does not qualify as productive activity even though it may bring in money to its practitioners.
5. Explain why in the context of a division-of-labor society, activity that physically results in the production of a product represents consumption if it is not carried on for the purpose of earning money.
6. Define productive expenditure and consumption expenditure and explain and illustrate why the distinction between them is important.
7. Define capital goods and consumers goods and explain what is the essential difference between them.
8. Explain why machines are not necessarily capital goods. Give examples of machines, tools, and implements that are everyday consumers goods.
9. Explain why government is essentially a consumer and its expenditure, consumption expenditure.
10. Explain the difference between producers labor and consumers labor and why the distinction is important. What is the leading example of consumers labor today?
11. Explain what is meant by producers loans and consumers loans and why the difference between them is important.
12. Explain why government borrowing represents consumer borrowing.
13. Describe an essential difference between government borrowing and private consumer borrowing.
14. Define capital and distinguish it from the broader concept of wealth.
15. Define investment.
16. Explain what is meant by the concept of imputed income and describe the contradictions to which it leads.
17. Explain what is meant by the doctrine of opportunity cost and the contradictions to which it leads.

Chapter 15 (Includes Review of Chapter 14, Part B, Section 3)

1. "The volume of spending in the economic system is a measure of the quantity of money that exists, not of the volume of wealth that is produced." Discuss.
2. Explain why the use of price indexes to adjust the volume of spending for changes in the price level, does not make possible any kind of precise measure of what is produced.
3. Describe what the concept of gross product includes according to the instructor and the classical economists.

4. Explain what is meant by productive consumption.
5. Explain what is meant by the *net* product according to the instructor.
6. According to the instructor, what contemporary economics describes as the gross product is actually a highly netted product. Explain.
7. Explain what is meant by the error of "double counting" according to Samuelson and other contemporary economics textbook authors.
8. Explain how Ackley, Samuelson, and the others come to the conclusion that to claim that both bread *and* flour, or both automobiles *and* steel, are produced is to claim that more is produced than is in fact produced.
9. "*The Statistical Abstract of the United States* and all other publications reporting the production both of consumers' goods and of the capital goods necessary to their production are guilty of the error of double counting, according to contemporary economics." Discuss.
10. Explain Samuelson's and the other authors' concept of what it is that one produces when one produces a product such as a loaf of bread or an automobile.
11. Explain how this concept of one's product leads to the conclusion that the total product of the economic system is essentially just the production of consumers' goods, i.e., of "final products."
12. Describe the mental processes that lead to the conclusion that a final product, such as bread, counts all the intermediate products whose production is necessary to its production.
13. Explain why the mental processes referred to in the preceding question rest on a Platonic-Heraclitean view of the nature of entities.
14. Explain why, according to the instructor, the belief that the value of the final product counts the value of the intermediate products in addition to its own value rests on a twofold violation of the laws of arithmetic and entails a double counting of the value of the final product.
15. Explain what is meant by productive expenditure. (See Chapter 11, if you have forgotten.)
16. Explain what is meant by consumption expenditure. (See Chapter 11, if you have forgotten.)
17. Describe the nature of the confusions many people have in connection with what a person buys when he buys a consumers' good.
18. Explain how the confusions referred to in the preceding question reinforce the view that saving is synonymous with hoarding.
19. What is meant by the proposition that "the demand for A is the demand for A"?
20. How does the proposition that "the demand for A is the demand for A" relate to John Stuart Mill's proposition that "the demand for commodities is not the demand for labor"?
21. Explain what is meant by "Shadow Entities and Shadow Purchases." Illustrate by distinguishing between a real purchase of bread, flour, and wheat in a market, and the purchase of bread alone.
22. Explain how the notion that in buying the final product one buys the labor and capital goods necessary to its production contradicts the fact that businessmen need capital in order to buy the means of production.
23. Explain why the fact that buying the output is proof that one has *not* bought the inputs.

24. "The demand for consumers' goods is not only not a demand for factors of production, but is *in competition* with the demand for factors of production." Discuss.
25. Describe what would happen to the demand for factors of production if the sellers of consumers' goods used the whole of their sales proceeds to consume.
26. "If wealthy businessmen decide to withdraw funds from their firms in order to consume in the form of buying yachts, say, the effect will be to cause an increase in the demand for capital goods and labor by the yacht-building industry. Nevertheless, the *total* demand for capital goods and labor in the economic system will now be less to the extent that the purchase of yachts has taken the place of the purchase of capital goods and labor." Explain.
27. "A rise in the demand for consumers' goods at the expense of the demand for factors of production increases the proportion of the demand for factors of production that is made by the consumers' goods industries while reducing the overall size of the demand for factors of production in the economy as a whole." Discuss.
28. Explain why the only income of any significance that could be increased by virtue of the repeated rounds of consumption expenditure depicted in the multiplier process would be profit income, not wage income.
29. Explain what is meant by *saving*.
30. Explain why people of limited education and with no business experience are especially prone to confuse saving with hoarding.
31. Describe how the fallacy that saving is hoarding is prominent among Keynesian economists and the financial press.
32. Explain the connection of the fallacy that saving is hoarding and thus economically depressing, to the notion that investment spending comes out of nowhere and is expansionary.
33. Describe the closely related fallacy in connection with the way in which government spending and taxes are frequently viewed.
34. Explain why the belief that saving is hoarding represents the fallacy of composition when it is applied to the economic system as a whole.
35. Explain why hoarding--i.e., an increase in the demand for money for holding--when it actually occurs is the cause of a *reduction* in savings.
36. "When it occurs on a significant scale, "hoarding" has nothing to do with any attempt to save or to save more; nor does it originate with consumers. Rather, it represents the attempt of business firms and investors to convert previously accumulated savings from their usual form of physical assets or claims to physical assets, into cash, in an effort to become more liquid." Discuss.
37. Explain how "hoarding" operates to increase the degree of liquidity in the economic system--i.e., the ratio of the quantity of money to such magnitudes as current liabilities--and finally to put an end to the desire further to increase cash holdings.
38. Explain how inflation and credit expansion create the potential for a sudden rise in the demand for money for holding.
39. Describe how what is saved is not only spent, but is the source of *most* spending in the economic system. (In your answer, be sure to feature the role of saving by business firms out of their sales revenues, i.e., the extent to which their sales revenues are used to make productive expenditures rather than consumption expenditures.)

40. Starting with the fact that approximately 98 percent of a supermarket's sales revenues serve to cover costs, estimate the ratio of productive expenditures made at all the various stages of production connected with supplying food to consumption expenditures for food.
41. Explain the effect of saving on the demand for houses and expensive consumers' goods in general.
42. Describe the extent to which wages are paid out of saving and productive expenditure versus consumption expenditure.
43. "Saving and productive expenditure not only far exceed consumption expenditure, but are the *source* of almost all consumption expenditure." Explain.
44. "Financially the individual business firm is vitally dependent on the consumers, but from the perspective of the economic system as a whole, it is the consumers who are vitally dependent on business." Discuss.
45. Explain the proposition "money comes to goods."
46. Explain what is meant by the propositions "business is the source of its own demand and profitability" and "there is no need for artificial consumption."
47. Explain what is meant by the proposition that saving is the source of an increasing aggregate demand in both real and monetary terms.
48. Explain what is meant by the proposition that saving is the source of rising consumption. Illustrate in terms of the recent history of Japan.
49. Describe the effects on aggregate consumption of the use of savings to pay wages.
50. Explain what is meant by the consumption illusion of contemporary national-income accounting.
51. Explain why the equality between national income (i.e., the sum of profits plus wages), on the one side, and net national product (i.e., the sum of consumption expenditure plus net investment), on the other, is in fact an identity in which the only difference between the two sides is a change in the order of addition of the exact same revenue-expenditure subcomponents.
52. Explain why net investment equals productive expenditure minus business costs--the same costs as are deducted from sales revenues in calculating aggregate profits.
53. Explain how it is that most spending in the economic system is concealed under the heading of net investment.
54. Explain what is meant by the "gross national revenue" (GNR).
55. Explain what item must be subtracted from GNR to go to national income, on the one side, and net national product, on the other?
56. What must be subtracted from GNR to go to GNP?
57. Answer the various questions on Handout 4 starting with the calculation of total sales revenues and income payments in the economic system and continuing through the questions dealing with the calculation of the multiplier and the specific kinds of incomes that would be increased.
58. Explain the connection between real wages and the supply of capital goods per worker.
59. Name the two main determinants of the supply of capital goods.
60. Describe the role of saving in capital accumulation.
61. Explain the role of technological progress in capital accumulation.

62. Explain the reciprocal relationship between technological progress and capital accumulation.
63. Explain the role of free trade and of economic freedom in general in the accumulation of capital. Name the concept that subsumes both economic freedom and technological progress as causes of capital accumulation.
64. Explain why under the conditions of an invariable money an increase in saving and the relative demand for capital goods stands in the same relationship to capital accumulation as does force to acceleration in physics.
65. Explain the rapid economic progress of Japan and other East Asian countries in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 14-4 and 14-5.
66. Explain the relative stagnation of the American economy in the last generation in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 14-4 and 14-5.
67. Explain the stagnation or retrogression of socialist economies, notably Soviet Russia, in the light of the theory of capital accumulation presented in Chapter 14. Present your analysis in terms of Figures 14-4 and 14-5.
68. Explain why recognizing the separate existence of the demand for capital goods, and the separate, distinct production of capital goods, is necessary in order to understand that an additional supply of capital goods serves to increase the supply of capital goods as well as the supply of consumers' goods.
69. Explain how the failure to recognize the separate existence of the demand for capital goods and the corresponding separate production of capital goods leads both to an inadequate appreciation of the role of saving in capital accumulation and to a corresponding overemphasis on the role of saving in capital accumulation.
70. Explain how the failure to recognize the separate existence of the demand for capital goods and the corresponding separate production of capital goods also prevents recognition of the role of technological progress as a cause of capital accumulation in serving to maintain the productivity of the increasing supply of capital goods.
71. Explain how Figures 15-5 and 15-6 use the information supplied in Figures 14-4 and 14-5 to derive the amount of national income that exists in an economic system with an invariable money under conditions both of economic stagnation and economic progress.
72. In the light of Tables 15-6 and 15-7, explain why the relationship between national income and economic progress and prosperity is *inverse* in the context of an economic system with an invariable money.
73. Explain why in the light of the analysis of Figures 15-5 and 15-6 national income is basically the counterpart just of consumption expenditure.
74. Explain the mechanism by which economic progress raises *real* incomes in Figure 15-6.
75. Explain what is meant by the "balanced-budget multiplier" of the Keynesians.
76. Explain how recognition of the inverse relationship between national income and economic progress and prosperity serves to overthrow the doctrine of the balanced-budget multiplier.
77. Explain what is meant by the doctrine of the "Conservatives' Dilemma."

78. Explain how recognition of the inverse relationship between national income and economic progress and prosperity serves to overthrow the doctrine of the conservatives' dilemma.