

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

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### CHAPTER 17. APPLICATIONS OF THE INVARIABLE-MONEY/NET-CONSUMPTION ANALYSIS

1. Describe how capital accumulation can take place with no accompanying fall in the rate of profit.
2. Describe how production can increase and prices fall both with no accompanying fall in the rate of profit and no greater difficulty of repaying debts being present.
3. Explain why, in the conditions of an invariable money, a fall in the rate of profit should be associated with an *acceleration* of the rate of capital accumulation and fall in prices, rather than with capital accumulation and falling prices per se.
4. Explain how the habit of focusing almost exclusively on the production of consumers' goods, as though all that were produced were consumers' goods, leads to the belief that the only source of capital accumulation is more saving.
5. Explain how the fallacy of composition contributes to the conclusion that the effect of capital accumulation is a lower rate of profit.
6. "Falling prices caused by increased production and supply are preceded by falling unit costs to the same extent." Explain.
7. Explain why a fall in the rate of profit that results from a fall in the rate of net consumption differs profoundly from a fall in the rate of profit that results from a financial contraction and deflation.
8. "The fact that a fall in the rate of net consumption entails a rise in saving and productive expenditure, extensive net investment and the formation of new capital giving rise to a higher degree of capital intensiveness, and makes possible a correspondingly greater availability of credit, characterizes it as the very opposite of a period of deflation or financial contraction. In a deflation or financial contraction, productive expenditure falls, net investment becomes negative, capital values decline, and credit becomes largely unobtainable." Discuss.
9. Explain why the process of falling prices resulting from increased production and supply is actually almost certain to be accompanied by a growing ability to repay debt rather than by an increased difficulty of repaying debt.
10. Explain how the fall in the rate of profit that is the accompaniment of launching or accelerating the process of capital accumulation by means of a fall in the rate of net consumption, is in part reversed by the consequences of that capital accumulation.
11. "Just as technological progress is not required as an 'outlet' for capital goods accumulated merely by means of saving, but is itself the source of capital goods, so in its relation to the increase in the supply of commodity money it is not an outlet for net investment, but is itself the source of net investment." Discuss.
12. Describe Ricardo's essential insight concerning the nature of capital accumulation.
13. Why is a fall in the rate of profit caused by a fall in the rate of net consumption unlikely to be accompanied by a rise in the demand for money for holding, as is the case when the rate of profit falls because of a financial contraction/deflation?
14. Explain and illustrate why it is that with the passage of years, the cumulative proportion of the capital goods and labor in existence in any given base year that directly

or indirectly serves in the production of consumers' goods continually grows, while the proportion continuing to serve indirectly in the production of capital goods and thus of consumers' goods in the still further future continually declines.

15. Using Figures 162 and 173, explain how the average period of production or length of the structure of production can be expressed.

16. Explain why a continuous lengthening of the period of production is not necessary for the existence of capital accumulation.

17. Use the concept of the average period of production to explain why technological progress by itself is limited in its ability to bring about capital accumulation and why an economic system with a longer average period of production is in a better position to implement technological advances.

18. Explain how the taxation of profits raises the rate of profit.

19. Explain how budget deficits financed by borrowing from the public operate to raise the rate of profit.

20. Explain why the goal of increasing saving and capital formation through balancing the government's budget depends on cutting government spending rather than raising taxes.

21. Describe how government intervention has contributed to an emphasis on short-term results.

22. Describe the connection between chronic budget deficits and the negative balance of payments between the United States and Japan.

23. Describe how greater economic freedom and respect for property rights in the United States is necessary to maintain America's world role.

24. "In the absence of increases in the quantity of money, net saving in terms of money would tend to disappear." Discuss.

25. Explain why the actual economic significance of saving lies at the gross level, rather than at the net level.

26. "Rather than reduce the rate of profit, continued net saving is the product of forces that add to the rate of profit." Discuss.

27. Explain how hoarding operates as a long run cause of a higher rate of profit rather than a lower rate of profit.

28. Describe the extent of the outlets for investment.

29. Explain what is meant by underconsumptionism. Describe its basic error.

30. Explain how the demand for capital goods and labor can radically and permanently exceed the demand for consumers' goods.