

## CHAPTER 1. ECONOMICS AND CAPITALISM

### PART A. THE NATURE AND IMPORTANCE OF ECONOMICS

\_\_\_\_\_ 1. According to the instructor, economics is

- the science of wealth
- the science that studies the production and exchange of wealth
- the science that studies the use of scarce means to achieve competing ends
- the science that studies the production of wealth under a system of division of labor

\_\_\_\_\_ 2. In a division-of-labor society, the individual lives by producing or helping to produce just one or at most a very small number of items, almost all of which are consumed by others; at the same time practically all that he consumes is produced by the labor of others.

\_\_\_\_\_ 3. The importance of economics derives from the importance of wealth insofar as the subject can be no more important than is wealth.

\_\_\_\_\_ 4. The importance of wealth is not sufficient to establish the importance of economics. For example, while wealth would be extremely important to Robinson Crusoe, he would not be able to obtain any advantage other than abstract knowledge pertaining to the world he was cut off from, if he could salvage some books on economics.

\_\_\_\_\_ 5. What necessitates the science of economics is the fact that the production of wealth is not only important but in the conditions of the modern world also depends on the division of labor, which, in turn, does not exist or function automatically but depends on human choices, in particular, choices in the realm of politics and government policy.

\_\_\_\_\_ 6. Which of the following statements is the most completely true:

- Approximately only one-fourth of the population of the present-day world lives in division-of-labor societies; the great majority of people living in populous countries such as China, India, and Indonesia continue to produce mainly for their own and their families' personal consumption.
- The division-of-labor society, in the sense of the average individual devoting the great bulk of his working time to production for the market, and thus to satisfying the needs of others, while in turn being supplied almost entirely from the market, and thus by means of the labor of others, is presently confined mainly to the United States, Canada, Great Britain, the countries of Western Europe, Japan, South Korea, Taiwan, Australia, and New Zealand.
- Prior to the rise of the modern Western world, the greatest degree of division of labor was achieved under the early Roman Empire.

- The first country to develop into a division-of-labor society was Great Britain, in the eighteenth century.
- all of the above
- none of the above

\_\_\_\_\_ 7. Which of the following statements is the most completely true:

- The division of labor raises the productivity of labor by bringing about a corresponding multiplication of the volume of knowledge that enters into the production of goods and services.
- In a division-of-labor society, the total of the knowledge entering into the production of goods and services is the sum of the bodies of knowledge of each of the different specialized occupations and suboccupations. In contrast, in a non-division-of-labor society, there is essentially just one occupation and one body of knowledge—that of self-sufficient farmer.
- Non-division-of-labor societies represent a wasteful duplication of the mental contents of the human brain, in that everyone lives in the same way and knows essentially just the same things about production as everyone else.
- In a division-of-labor society, a large proportion of the most intelligent and ambitious members tend to concentrate on areas devoted to the acquisition and application of new knowledge, notably, science, invention, and business, with the effect that the body of knowledge used in the production of goods and services is not only multiplied to the extent that labor is divided into separate occupation, each with its own, distinct body of knowledge, but also tends to grow from generation to generation.
- all of the above

\_\_\_\_\_ 8. The division of labor has radically increased the productivity of labor and made possible the survival of a vastly larger population, including a vastly larger population in countries with relatively little division of labor, which obtain vital supplies, such as food and medicines, from the countries constituting the division-of-labor society.

\_\_\_\_\_ 9. What people, including governments, do, depends on what they think and believe. Public opinion and government policy guided by an ignorance of economics is capable of resulting in actions that severely damage, and can even destroy, the division of labor, which has definite requirements for its maintenance and growth. Without knowledge of economics, the citizens of the division-of-labor society are in the position of a crowd wandering through a modern factory and randomly pushing buttons and pulling levers.

\_\_\_\_\_ 10. Because they lived mainly as hunters, the average American Indian required so much land, to assure an adequate supply of game, that the population of Indians living north of the Rio Grand river could not get beyond approximately one million people.

\_\_\_\_\_ 11. If the present population of the United States were to attempt to live as self-sufficient farmers, the average individual in the lower forty-eight states could have no more than about seven acres of land, including all the deserts and mountains. The situation would be even worse in Western Europe and Japan, where population densities are much greater. There is simply not enough land to support today's numbers if they were to attempt to abandon the division of labor and live as self-sufficient farmers.

\_\_\_\_\_ 12. The rapid growth in population figures around the world over the last two hundred years, after centuries of stagnation, is the result of the higher productivity of labor resulting from the division of labor.

\_\_\_\_\_ 13. The destruction of the modern division of labor would cause radical depopulation all across the world; the survivors would live in the kind of poverty existing in the Dark Ages.

\_\_\_\_\_ 14. The major applications of economics, according to the instructor, include the very survival of a division-of-labor society and all that depends on it.

\_\_\_\_\_ 15. The major applications of economics, according to the instructor, include the solution of such major present or recent economic problems as

- a. mass unemployment
- b. inflation
- c. economic stagnation
- d. shortages
- e. economic conflict among groups within countries or between countries
- f. all of the above

\_\_\_\_\_ 16. An implication of economics for ethics is

- a. the proposition that one man's gain resulting from an increase in production is not another man's loss; indeed, is frequently the source of other men's gain

b. rather than the individual having to sacrifice his self-interest in order to live in society, the existence of a division-of-labor society is essential to the achievement of the material self-interest of the individual

c. the material self-interest of the individual is served by the existence and the freedom of other people who cooperate with him in the division of labor

d. all of the above

\_\_\_\_\_ 17. Knowledge of economics

a. is a powerful antidote to unfounded feelings of being the victim or perpetrator of "exploitation"

b. is a powerful antidote to all feelings of "alienation" based on the belief that the economic world is immoral, purposeless, or chaotic

c. cannot help but support the conviction that the fundamental nature of the world is benevolent and thus that there is no rational basis for feelings of fundamental estrangement from the world

d. all of the above

\_\_\_\_\_ 18. Knowledge of economics is indispensable to

a. understanding the broad sweep of history, notably the fall of ancient civilization and the rise of modern civilization

b. the pursuit of rational economic policy

c. understanding one's place in the world and the kind of world one lives in

d. the defense of individual rights

e. all of the above

\_\_\_\_\_ 19. Knowledge of economics is important for

a. businessmen

b. historians

c. journalists

d. the intelligent citizen

e. all of the above

\_\_\_\_\_ 20. Knowledge of economics is important to businessmen because

a. it can teach them how to earn profits

b. it explains why everyone benefits from their being free to earn profits

## PART B. CAPITALISM

\_\_\_\_\_ 21. Capitalism

- a. is a social system based on private ownership of the means of production
- b. is characterized by the pursuit of material self-interest under freedom
- c. rests on a foundation of the cultural influence of reason
- d. all of the above

\_\_\_\_\_ 22. Capitalism is characterized by

- a. saving and capital accumulation
- b. exchange and money

c. financial self-interest and the profit motive

d. all of the above

\_\_\_\_\_ 23. Capitalism is characterized by

a. the freedoms of economic competition and economic inequality

b. the price system

c. economic progress

d. a harmony of the material self-interests of all the individuals who participate in it

e. all of the above

\_\_\_\_\_ 24. Almost every essential feature of capitalism underlies the division of labor and several of them are profoundly influenced by it in their own operation.

\_\_\_\_\_ 25. Economics, as the science which studies the production of wealth under a system of division of labor, is actually the science which studies the production of wealth under *capitalism*.

\_\_\_\_\_ 26. The foundations of capitalism and economic activity, without which they could not develop or only minimally develop, include

- a. philosophical convictions pertaining to the reality and primacy of the material world of sensory experience
- b. the philosophical conviction that the world operates according to definite and knowable principles of cause and effect
- c. the prevalence of conceptual awareness of the future
- d. the individual's identification of himself as a self-responsible causal agent with the power to improve his life
- e. all of the above

\_\_\_\_\_ 27. The foundations of capitalism and economic activity, without which they could not develop or only minimally develop, include

- a. peace and tranquility
- b. respect for individual rights
- c. limited government and economic and political freedom
- d. all of the above

\_\_\_\_\_ 28. Recognition of property rights presupposes

- a. recognition of the principle of causality
- b. "secularism," in the sense of the validity of concern with the physical world and material well-being
- c. both (a) and (b)
- d. neither (a) nor (b)

\_\_\_\_\_ 29. Great entrepreneurship as a social phenomenon presupposes the conviction of the potential for human greatness.

\_\_\_\_\_ 30. The continued existence of a capitalist society depends on the ability of economic science to influence people's thinking so that they will favor capitalism and sound economic policy.

\_\_\_\_\_ 31. Freedom means freedom from the initiation of physical force.

\_\_\_\_\_ 32. Physical force means

- a. physically doing something to or with the person or property of another against his will
- b. is exercised through advertising
- c. is present in irresistible logical argument
- d. all of the above

\_\_\_\_\_ 33. Various individuals commit acts such as robbery, rape, and murder.

a. In so doing, they are guilty of the initiation of physical force.

b. In forcibly apprehending such individuals and carting them off to jail, the police are guilty of the initiation of acts of physical force.

c. both (a) and (b)

d. neither (a) nor (b)

\_\_\_\_\_ 34. Fraud represents the initiation of physical force in that it entails the taking of property against its owner's actual will.

\_\_\_\_\_ 35. The existence of government secures the individual's freedom in relation to other private individuals by virtue of apprehending and punishing those who initiate the use of physical force. To the extent that the government is successful in this, the individual is made free of the initiation of physical force by other private individuals.

\_\_\_\_\_ 36. In order for the individual to have freedom in relation to the government, it is necessary that the government be *limited* to protection against the initiation of physical force.

\_\_\_\_\_ 37. Freedom should be defined not merely as the absence of the initiation of physical force, but, in addition, in order to highlight its most crucial aspect, the absence of the initiation of physical force specifically by, or with the sanction of, *the government*.

\_\_\_\_\_ 38. Laws, rulings, decrees that punish by fines or jail terms behavior that does not entail the use of physical force (including fraud) themselves constitute the initiation of physical force and hence represent a violation of the individual's freedom.

\_\_\_\_\_ 39. Freedom is the foundation of economic security in that it is the basis of everyone being as secure as the exercise of his own reason and the reason of his suppliers can make him.

\_\_\_\_\_ 40. Where there is freedom, there is peace, because there is no use of force: insofar as force is not initiated, the use of force in defense or retaliation need not take place.

\_\_\_\_\_ 41. Under freedom, the individual can choose to do whatever he judges to be most in his own interest, without fear of being stopped by the physical force of anyone else, so long as he himself does not initiate the use of physical force.

\_\_\_\_\_ 42. Under freedom, the individual

a. can take the highest paying job he can find and buy from the most competitive suppliers he can find

b. can keep all the income he earns and save as much of it as he likes, investing his savings in the most profitable ways he can

c. cannot use physical force except in immediate self-defense

d. all of the above

\_\_\_\_\_ 43. Peace as the accompaniment of freedom

- a. means peace at any price
- b. means giving in to the threats of aggressors, in order to avoid conflict
- c. is in sharpest contrast to the "peace of slaves and cowards"
- d. all of the above

44. The existence of the social security system is a leading consequence of the belief that in order to achieve economic security, one must violate economic freedom and establish a welfare state.

45. Social security

- a. deprives the individual, to the extent of his contributions to the system, of the power to decide how his savings are invested
- b. diverts the individual's savings into the financing of current government expenditures rather than capital investment
- c. makes the individual dependent on the choices of future legislators and future taxpayers as the source of his actual support
- d. all of the above

46. Freedom of the press is fully implied in the property rights of a press owner to use his press, paper, and ink to print the words he wants to print and then to distribute his product to all willing buyers or takers.

47. Freedom of speech is fully implied in the property rights of the owner of a piece of land, or of a meeting hall, to invite speakers of his choice onto his property and an audience of his choice to listen to the speakers.

48. An individual's freedom of press is violated when

- a. a newspaper or publisher refuses to publish his views
- b. when a newspaper or publisher is willing to publish his views but is prevented from doing so by the government

49. An individual's freedom of speech is violated when

- a. a radio or television station refuses to invite him to speak
- b. when a radio or television station is willing to invite an him to speak but is prevented from doing so by the government

50. Economic freedom and political freedom—property rights and human rights—are indivisible; they are, in fact, merely different aspects of the same thing.

51. On the basis of the anarchic concept of freedom, it is claimed that freedom is violated any time there is anything that, for whatever reason, a person cannot do, from flying to the moon, to being able to afford a house or a college education that is beyond his reach, to committing murder.

52. Such acts as murdering one's mother-in-law or speeding through red lights and thereby threatening the lives of others, are so far from representing freedom that their *prohibition* is what actually constitutes freedom.

53. The anarchic concept of freedom is present in the assertion of Communists and socialists that their freedom of speech is violated because they are threatened with arrest for attempting to disrupt the speech of an invited speaker by shouting him down or by speaking at the same time.

54. A prohibition on arbitrarily shouting 'fire' in a crowded theater should not be construed as any kind of limitation on the freedom of speech, let alone a justified limitation. On the contrary, in the case of a live theatrical performance, the freedom of speech is violated precisely when someone does arbitrarily shout 'fire.'

55. "The anarchic concept of freedom is implicitly accepted by conservatives and fascists, as well as by anarchists and hippies.

56. The freedom of the press is violated and censorship exists not when a newspaper refuses to publish a story or a column that, for any reason, it regards as unworthy of publication, but when it is prepared to publish a piece and is stopped from doing so by the government. A private newspaper cannot commit censorship. Only the government can commit censorship.

57. The freedom of travel is *not* violated when an individual wants to travel somewhere but lacks the ability to pay the cost of doing so. On the contrary, it is violated when he *has* the ability to pay the cost, and wants to pay it, but the government stops him—say, with a wall around his city (as existed until 1989 in East Berlin), a passport restriction, or a price control on oil and oil products that creates a shortage of gasoline and aviation fuel and thus stops him from driving and the airlines from flying.

58. State laws that impose residency requirements for the receipt of welfare violate the freedom of travel, because they stop people from traveling in the knowledge that they will have no source of funds when they reach their destination.

59. Striking down residency requirements for the receipt of welfare requirements represents violating the freedom of taxpayers.

60. The anarchic concept of freedom leads to the belief that freedom of speech is incompatible with the communication of thought. The rational concept of freedom, on the other hand, establishes freedom of speech precisely as the safeguard of the communication of thought.

61. What makes the anarchic concept of freedom so destructive is the fact that in divorcing freedom from the context of rationality, it not only seeks to establish a freedom to initiate physical force, as in

the case of the anarchic concept of the freedom of travel, but also, on the basis of the consequences of such a perverted concept of freedom, provides seeming justification for the violation of freedom as a matter of rational principle.

\_\_\_\_\_ 62. In recent decades, the government's energies and efforts have more and more been diverted from the protection of the individual's freedom to the violation of it.

\_\_\_\_\_ 63. The growth of government corruption is a byproduct of the decline of freedom, in that this last means that the government has gained the power both to impose arbitrary harm and to give arbitrary benefit, the first of which citizens pay to avoid and the second of which they pay to receive.

\_\_\_\_\_ 64. To the degree that they exist, freedom and the pursuit of material self-interest, operating in a rational cultural environment, are the foundation of

- a. private ownership of the means of production
- b. saving and capital accumulation
- c. the development of the division of labor
- d. the development of exchange and money
- e. financial self-interest and the profit motive
- f. economic inequality
- g. economic competition
- h. the price system
- i. economic progress
- j. the harmony of rational self-interests
- k. all of the above

\_\_\_\_\_ 65. The economic freedom of the United States led to

- a. a vast westward migration
- b. a vast increase in private ownership of the means of production as settlers appropriated land and natural resources from nature

- c. the development of new and improved means of transportation
- d. the development of new and improved products and methods of production
- e. the founding and growth of new towns and cities
- f. all of the above

\_\_\_\_\_ 66. The unpopularity of capitalism and economic activity are evident in the various attacks that are frequently made on the profit motive, economic competition, economic inequality, money, saving, and virtually every other feature of their existence, and in the numerous laws and regulations that have been imposed to restrain them.

\_\_\_\_\_ 67. Economics is controversial in part because

- a. of the inherent difficulties present in any science of reconciling scientific theory with unscientific personal observations
- b. the prevailing prescientific worldview in the realm of economics
- c. the fact that economics casts the pursuit of self-interest in a positive light and thereby appears in conflict with the received morality of altruism
- d. economics comes into conflict with the pursuit of self-interest by means of force
- e. economics presupposes a willingness to follow chains of deductive reasoning and to regard the results of logical reasoning from true premises as binding
- f. all of the above

\_\_\_\_\_ 68. The belief that science must be "value free" is contradicted by the fact that science itself presupposes such values as rationality, honesty, integrity, and the freedom of inquiry, without which science could not be pursued.

Answers to Questions 1-68 on Chapter 1

<b>Question #</b>	<b>Correct Answer</b>	<b>Question #</b>	<b>Correct Answer</b>
1	d	35	T
2	T	36	T
3	T	37	T
4	T	38	T
5	T	39	T
6	e	40	T
7	e	41	T
8	T	42	d
9	T	43	c
10	T	44	T
11	T	45	d
12	T	46	T
13	T	47	T
14	T	48	b
15	f	49	b
16	d	50	T
17	d	51	T
18	e	52	T
19	e	53	T
20	b	54	T
21	d	55	T
22	d	56	T
23	e	57	T
24	T	58	F
25	T	59	T
26	e	60	T
27	d	61	T
28	c	62	T
29	T	63	T
30	T	64	k
31	T	65	f
32	a	66	T
33	a	67	f
34	T	68	T