

Chapter 17

_____ 1. Capital accumulation can take place only with an accompanying fall in the rate of profit.

_____ 2. When production increases and prices fall, the result is

- a. a fall in profit margins and the rate of profit
- b. an increase in the difficulty of repaying debts
- c. deflation
- d. all of the above
- e. none of the above

_____ 3. Capital accumulation can take place with both no accompanying fall in the rate of profit and no greater difficulty of repaying debts.

_____ 4. In the conditions of an invariable money, a fall in the rate of profit is associated with an *acceleration* of the rate of capital accumulation and fall in prices, rather than with capital accumulation and falling prices per se.

_____ 5. In the conditions of an invariable money, capital accumulation can take place

- a. on the basis of a sufficiently high but stable volume of demand for capital goods and of productive expenditure overall
- b. only on the basis of a rising demand for capital goods and of productive expenditure overall

_____ 6. The habit of focusing almost exclusively on the production of consumers' goods, as though all that were produced were consumers' goods,

- a. prevents one from recognizing that once a larger supply of capital goods comes into existence and increases the ability to produce, that circumstance causes an increase in the production and supply of capital goods as well as an increase in the production and supply of consumers' goods
- b. leads to the belief that the only source of capital accumulation is more saving
- c. both (a) and (b)
- d. neither (a) nor (b)

_____ 7. The conclusion that the effect of capital accumulation is a lower rate of profit

- a. is a valid generalization from the effects of greater investment in an individual industry
- b. rests on the fallacy of composition
- c. both (a) and (b)

_____ 8. Falling prices caused by increased production and supply are not preceded or accompanied by falling unit costs.

_____ 9. Given the monetary demands for the products of business and for factors of production by business, falling prices caused by increased production and supply are preceded by falling unit costs to the same extent.

_____ 10. Given the monetary demands for the products of business and for factors of production by

business, falling prices caused by increased production and supply are preceded by falling unit costs to the same extent, because the increase in the supply of products is preceded by a corresponding increase in the supply and/or productivity of the factors of production.

_____ 11. A fall in the rate of profit that results from a fall in the rate of net consumption differs from a fall in the rate of profit that results from a financial contraction and deflation because

- a. a fall in the rate of net consumption entails a rise in saving and productive expenditure, 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, which characterizes it as the very opposite of a period of deflation or financial contraction
- b. in a deflation or financial contraction, productive expenditure falls, net investment becomes negative, capital values decline, and credit becomes largely unobtainable
- c. both (a) and (b)

_____ 12. The process of falling prices resulting from increased production and supply is likely to be accompanied by an increased difficulty of repaying debt.

_____ 13. Under a gold standard, 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.

_____ 14. Under a gold standard, 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 because the increase in production and supply will almost certainly be accompanied by an increase in the production and supply of gold and thus correspondingly rising spending and sales revenues in terms of gold.

_____ 15. Under a system of commodity money, 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, which include an increase in the production and supply of the commodity serving as money, along with an increase in the production and supply of commodities in general.

_____ 16. Just as technological progress is not required as an "outlet" for capital goods accumulated merely by means of saving, but is itself a 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 a source of net investment.

_____ 17. Technological progress

- a. provides new and additional uses for an expanding supply of capital goods resulting from saving
- b. is a major source of new and additional capital goods

_____ 18. Ricardo's essential insight concerning the nature of capital accumulation was that it is the result of anything that increases production in general.

_____ 19. A fall in the rate of profit caused by a fall in the rate of net consumption is 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, because

- a. it does not render the rate of profit negative
- b. it results in additional saving and capital accumulation and thus in the availability of additional credit, which last operates to reduce the demand for money for holding
- c. both (a) and (b)

_____ 20. With the passage of time, 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.

_____ 21. Irrespective of how high is the relative production of capital goods and how low is the relative production of consumers' goods, virtually the total supply of the means of production existing in any given year are ultimately devoted to the production of consumers' goods.

_____ 22. The average period of production or length of the structure of production can be expressed in terms of how many years must elapse before some given percentage of the capital goods and labor in existence in a base year will have ended up directly or indirectly serving in the production of consumers' goods.

_____ 23. A continuous lengthening of the period of production is necessary for the existence of capital accumulation.

_____ 24. The role played in capital accumulation by the average period of production explains why technological progress by itself is limited in its ability to bring about capital accumulation.

_____ 25. An economic system with a longer average period of production is in no better position to implement technological advances than an economic system with a shorter average period of production.

_____ 26. In an economic system with either an invariable money or a quantity of money and volume of spending that increases at any given rate, the taxation of profits

- a. raises

b. lowers
c. leaves unchanged
the pretax rate of profit.

_____ 27. Under a system of commodity money, the taxation of profits

a. raises
b. lowers
c. leaves unchanged
the rate of net investment and the rate of profit insofar as it depends on the rate of net investment.

_____ 28. In an economic system with either an invariable money or a quantity of money and volume of spending that increases at any given rate, budget deficits financed by borrowing from the public operate to

a. raise
b. lower
c. leave unchanged
the rate of profit.

_____ 29. Under a system of commodity money, budget deficits financed by borrowing from the public operate to

a. raise
b. lower
c. leave unchanged
the rate of net investment and the rate of profit insofar as it depends on the rate of net investment.

_____ 30. The goal of increasing saving and capital formation through balancing the government's budget is facilitated more by cutting government spending than by increasing taxes, insofar as the additional taxes would come at the expense of saving.

_____ 31. When the rate of profit is 5%, it pays an investor to wait an additional year for payback if the later payback will be more than 5% greater than the earlier payback, and to wait an additional two years for payback if the later payback will be more than 10.25% greater than the earlier payback, and so on. How much greater must the paybacks be if the rate of profit is 10%?

_____ 32. To the extent that government intervention has served to raise the rate of profit in the economic system, it has contributed to an emphasis on short-term results.

_____ 33. To the extent that chronic budget deficits in the United States have made the rate of profit higher in the United States than in Japan, they have

- a. encouraged Japanese investment in the United States
- b. contributed to the negative US balance of trade with Japan
- c. mitigated the reduction in capital available and rise in the rate of profit that would otherwise have taken place in the US as the result of its budget deficits
- d. all of the above

- e. none of the above

10PT = **The following is four-part question:**

_____ 34. Economic freedom and respect for property rights promote capital accumulation and economic progress by

- a. increasing the productivity of capital goods and thus reducing the maintenance proportion
- b. increasing the relative production of capital goods
- c. both (a) and (b)

_____ 35. The relative size of a country's economy in the world as a whole depends in the long run on its rate of capital accumulation and economic progress.

_____ 36. The relative size of a country's economy in the world as a whole depends in the long run on the extent of its economic freedom and respect for property rights.

_____ 37. In the face of more rapid increases in production in the rest of the world than in the United States, greater economic freedom and respect for property rights in the United States is necessary in order to stem the decline in the relative size of the American economy.

_____ 38. In the absence of increases in the quantity of money, net saving in terms of money would show a tendency to disappear.

_____ 39. In the absence of increases in the quantity of money, net saving in terms of money would tend to disappear because

- a. costs tend to rise toward any given level of productive expenditure
- b. to the extent that net saving continued and increased the total of accumulated savings and capital, the amount of net consumption would tend to rise and thus cause productive expenditure to fall
- c. both (a) and (b)

_____ 40. The actual economic significance of saving lies at the gross level, rather than at the net level, because this is the level at which the respective demands for capital goods and labor relative to the demand for consumers' goods are present and play their vital role even though net saving in terms of money may be zero.

_____ 41. Continued net saving in terms of money

- a. reduces the rate of profit
- b. is the product of forces that add to the rate of profit, viz., the increase in the quantity of money and volume of spending

_____ 42. In the long run, hoarding is the cause of a higher rate of profit rather than a lower rate of profit because the funds hoarded are as much a foundation of net consumption as the funds invested; at the same time, the ratio of net consumption to funds invested is

increased, to the extent that people hold their savings in the form of cash hoards rather than investments.

_____ 43. The scarcity of capital in its vertical dimension refers to

- a. the extent to which capital is available for employment at stages of production more remote from the production of consumers' goods, e.g., in the production of the steel that is used to produce automobiles, in the construction of the steel mills that are used to produce that steel, and so on
- b. the relation between the supply of capital and the need for more overall capital directly or indirectly employed per unit of consumers' goods produced
- c. the need for a higher degree of capital intensiveness
- d. all of the above

_____ 44. In its horizontal dimension, the scarcity of capital is as great as is the scarcity of consumers' goods.

_____ 45. Outlets for additional investment of capital in its vertical dimension exist in accumulating capital sufficient

- a. to enable the vast majority of the world that is presently not industrialized to come up to the degree of capital intensiveness of the portion of the world that is industrialized
- b. within the industrialized countries to enable every factory, farm, mine, and store to increase its degree of capital intensiveness to the point presently enjoyed only by the most capital-intensive establishments
- c. to enable all productive establishments to raise the standard of capital intensiveness to the point where no further reduction in costs of production or improvement in the quality of products could be achieved by any greater availability of capital in its vertical dimension
- d. all of the above

_____ 46. The potential for a rise in the value of land constitutes an outlet for virtually unlimited savings and capital accumulation in its vertical dimension at a positive rate of return on capital.

_____ 47. The doctrine of underconsumptionism

- a. holds that an increase in saving and decrease in consumption requires that in order for the additional savings to be invested, business must buy for more at the very time that it sells for less
- b. omits the demand for capital goods when it concludes that an increase in saving and decrease in consumption means a reduction in business sales revenues
- c. both (a) and (b)

_____ 48. The demand for capital goods and labor can

- a. not lastingly
- b. radically and permanently

exceed the demand for consumers' goods.

_____49. The demand for capital goods and labor can radically and permanently exceed the demand for consumers' goods because under such conditions

- a. most of the demand for capital goods and labor comes to be made in the production of capital goods, not consumers' goods
- b. the demand for consumers' goods needs to exceed only the limited part of the demand for capital goods and labor made directly in the production of consumers goods, while the demand

for capital goods in the production of consumers' goods constitutes a further demand for goods, behind which stands a further demand for capital goods and labor, and so on, indefinitely

- c. matters are described by an infinite series the further terms of which are larger the smaller is the initial term and the larger is the proportion in which later terms stand to earlier terms
- d. all of the above

Chapter 17, Questions 1-48.

Question #	Correct Answer	Question #	Correct Answer
1	F	26	a
2	e	27	b
3	T	28	a
4	T	29	b
5	a	30	T
6	c	31	>10% & >21%
7	b	32	T
8	F	33	d
9	T	34	c
10	T	35	T
11	c	36	T
12	F	37	T
13	T	38	T
14	T	39	c
15	T	40	T
16	T	41	b
17	b	42	T
18	T	43	d
19	c	44	T
20	T	45	d
21	T	46	T
22	T	47	c
23	F	48	b
24	T	49	d
25	F		