

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

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CHAPTER 2. WEALTH AND THE ECONOMIC PROBLEM

1. Explain the meaning of wealth.
2. Explain how the concept of wealth differs from the concept of money.
3. Does the production of more wealth in the economic system necessarily mean a larger total monetary value of that wealth?
4. What does a larger total monetary value of wealth fundamentally depend on?
5. In what circumstances would a connection exist between the quantity of money and the amount of wealth? Describe the connection.
6. Are monetary aggregates such as GDP or GNP measures of the amount of wealth produced or indicators of the quantity of money in existence? Discuss.
7. Explain what is meant by economic goods in contrast to free goods.
8. Explain why air, sunlight, and rainfall are free goods rather than economic goods.
9. Are stocks and bonds wealth? Explain.
10. Are licenses wealth?
11. What is the effect of licenses on the production of wealth?
12. Are patents and copyrights wealth?
13. What is the effect of the expiration of a patent or copyright on the production of wealth?
14. What is the long-run effect of the existence of the system of patents and copyrights on the production of wealth?
15. Are slaves wealth in a society that allows slavery?
16. What is the effect of slavery on the production of wealth?
17. Name the concept that embraces the market value of stocks, bonds, licenses, etc.
18. Define (economic) goods.
19. When did petroleum and uranium become economic goods and thus wealth?
20. Explain what was required before petroleum and uranium could become economic goods and thus wealth.
21. Is iron ore on Mars wealth? What would be required to make it wealth?
22. Could shale oil become wealth? What would be required to make it wealth?
23. Were deposits of iron, copper, or any of the metals wealth to the men of the Stone Age?
24. Compare the extent to which the land and mineral deposits of North America constitute wealth today versus the extent to which they did so for the American Indians.
25. Explain why desert land on which crops could successfully be grown if the land was irrigated is generally not an economic good or wealth.
26. What is meant by "imaginary goods"? Give examples.
27. What is meant by goods of the first order? The second order? The third order? Give examples.
28. "The source of the goods-character of things is ultimately *within us*. Goods derive their character as goods by virtue of their ability to benefit human beings." Discuss.

29. "The fact that more people are employed today in the various service industries than in manufacturing, mining, and agriculture shows that our economic system no longer revolves around the production of wealth." Explain why this conclusion is false.
30. "Economics is concerned with services only insofar as they are necessary to the production, enjoyment, or acquisition of wealth, or depend on the use of wealth. Economics is not at all concerned with the rendition of services apart from their connection with wealth." Discuss, being sure to give examples of the rendition of services with which economics is unconcerned.
31. In what way does its fundamental concern with the production of wealth lead economics to be concerned with explaining the exchange ratios at which services might be exchanged for services?
32. "Economics is the science which studies the allocation of scarce means among competing ends. It is not a science of wealth." Explain what is wrong with this view.
33. Name the leading classical economists. What was their view of the essential subject matter of economics?
34. "The ultimate source of the importance of the division of labor and capitalism, and of the science of economics, is *wealth*." Explain.
35. Why it is incumbent upon economics to provide philosophical validation for the production of wealth being a central, continuing concern of human existence?
36. How does man's possession of the faculty of reason imply a limitless need for wealth on his part?
37. Describe the extent of man's need for wealth merely in order to serve his needs for nutrition and health, i.e., what kinds of goods nowadays make an important contribution to the meeting of these needs?
38. Describe how reason gives man the ability to use wealth progressively to enhance the exercise of the capacities he shares in common with lesser species. Illustrate in terms of the capacities for locomotion, sight, and hearing.
39. Describe the contribution of wealth to the satisfaction of man's so-called higher needs, such as music, art, and science, whose existence and satisfaction is the result of his possession of reason.
40. Describe how man's nature as a rational being introduces additional, "higher" dimensions in the satisfaction of his "lower" needs such as nutrition.
41. Explain how man's desire for novelty and variety stands in the service of his life.
42. Explain how even when no practical applications ever result directly from the things that are desired, such as the paintings or sculptures that a millionaire desires to add to his collection, their being desired still produces important practical results.
43. Illustrate in contemporary terms the proposition of Adam Smith that "the desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage and household furniture seems to have no limit or certain boundary."
44. What kind of philosophical convictions must be present to induce people to desire additional wealth strongly enough to go out and actually produce it?
45. "The fact that the need and desire for wealth are limitless does not mean that when people devote themselves to satisfying that need and desire, as in the nations of modern capitalism, they go through life with a sense of endless frustration, seeking more than

they can ever hope to obtain." Explain how, on the contrary, the pursuit of ever more wealth should be expected to contribute powerfully to human happiness.

46. "Progress is the natural result of the use of reason as a constant." Discuss.

47. Explain the contribution of economic progress to human happiness in connection with the fact that as rational beings we are aware of the future in the present.

48. "According to the doctrines of cultural relativism and conspicuous consumption, the concept of economic progress can have no objective meaning." Explain.

49. "How man succeeds in relation to the physical world provides an objective standard by which to judge the value of cultures." Discuss.

50. Explain the basis for claiming that the automobile, for example, is objectively an advance over the horse and buggy, and radio objectively an advance over the telegraph and tom tom, while television is objectively an advance over radio, and color television is objectively an advance over black and white.

51. On the basis of what standard does the earning of wealth *deserve* to bring prestige?

52. Explain why the attempt to substitute the gaining of prestige for the incentive of gaining wealth ends up bringing the opposite of prestige to those who would accept the substitution.

53. Explain how the fact that in our culture many people want to own such goods as horses, canoes, bows and arrows, and so on, and in some cases prefer units of these goods to units of more advanced goods serving the same needs, is both consistent with the objective superiority of the goods of modern capitalism and further exemplifies the principle that man's need for wealth is limitless.

54. "In the name of being able to see, hear, move, or do anything that our senses, limbs, and minds enable us to do--in short, in the name of being able to live as human beings--the division of labor and capitalism and the values that underlie them--namely, reason, science, technology, individual rights, limited government and economic freedom, and private ownership of the means of production--deserve to be upheld." Discuss.

55. "The same principle that establishes the objectivity of the economic advances of modern capitalism directly establishes the objectivity of the superiority of modern capitalist civilization as such, in comparison to any other form of civilization. Here the attribute that serves as the standard is the ability to acquire and apply knowledge." Discuss.

56. "It should go without saying that capitalist civilization--modern Western civilization--is open to men of all races, as the brilliant success of Japan and several other Oriental nations dramatically illustrates. It is not the civilization of the white man, but of all men who wish to prosper and are prepared to adopt reason as their fundamental means of doing so. Those who view it, whether with pride or with hatred, as the civilization of the white man only are implicitly racists, in that they view civilization and culture as being racially determined. The fact is, of course, that civilization and culture, above all, modern capitalist civilization, is a body of knowledge and values that is accessible to all of mankind." Discuss.

57. State and illustrate the law of diminishing marginal utility.

58. Explain the two foundations of the law of diminishing marginal utility.

59. "The concept 'most important of our wants that a good is capable of satisfying' must be understood as *a variable range*, whose extent depends on the quantity of the good we possess." Explain and illustrate.

60. "The marginal wants that a good serves should be thought of as being the least important of the most important wants that its supply suffices to serve." Explain and illustrate.
61. "The utility of the marginal unit of a supply determines the utility of *any* of the units of that supply at that moment." Illustrate in terms of the frontiersman example.
62. Explain why, despite the views of Galbraith, the law of diminishing marginal utility is perfectly consistent with the fact that man's need for wealth is limitless. (Describe the three grounds for this conclusion.)
63. Explain how the law of diminishing marginal utility resolves the classical economists' paradox of value--i.e., the seeming paradox constituted by the fact that goods of apparently the lowest utility, such as diamonds, are normally more valuable in exchange than goods of apparently the highest utility, such as water.
64. Explain how determination of price by cost is an instance of the operation of the law of diminishing marginal utility.
65. Describe how the law of diminishing marginal utility helps to explain the pattern of demand that prevails in the economic system at any given set of prices of goods. In your answer be sure to describe the nature of the equilibrium that emerges.
66. Why is it mistaken to describe the equilibrium to which reference is made in the preceding question, in terms of an equal proportionality between price and marginal utility everywhere?
67. Show how the principle of diminishing marginal utility helps to explain the phenomenon of partial, relative overproduction and underproduction described by Say's Law.
68. "In essence, our desire for wealth outstrips our ability to produce it by virtue of the limitless range of the mental in comparison with the physical and thus by virtue of the fact that the range of our imaginations is always incomparably greater than the power of our arms." Discuss.
69. Explain why the relationship described in the preceding question remains true no matter how much we may augment the power of our arms by means of tools and machinery.
70. Explain what economists mean by "scarcity."
71. Contrast the meaning of scarcity in a capitalist society with its meaning in a precapitalist society.
72. Explain why scarcity under capitalism is the cause of the progressive elimination of scarcity in the sense experienced in a precapitalist society.
73. Explain what is meant by time preference.
74. Explain what, according to the principle of time preference, is analogous in the valuation of temporally more remote future goods and the perception of spatially more remote physical objects.
75. Does time preference mean that if it is December, an individual in Minneapolis should be expected to value a bathing suit that will be available to him in the coming January more highly than one that will be available to him in the coming July? Explain.
76. Is it consistent with the principle of time preference to value the first unit of a future supply above the second unit of a present supply? Explain.
77. Explain how the ascending price structure of commodity futures is consistent with the principle of time preference.

78. Explain how the principle of time preference is implied in the very nature of valuing something.
79. Explain why the nature of human life implies time preference.
80. Explain how time preference prevents the existence of profit and interest from always resulting in saving and the accumulation of additional capital.
81. Illustrate how time preference manifests itself in the extent to which individuals make provision for the future relative to their current consumption.
82. Other things being equal, how would you expect the size of the savings of an individual with a higher degree of time preference to compare with the size of the savings of an individual with a lower degree of time preference?
83. What is meant by the two dimensions of the scarcity of capital goods?
84. Give examples of different degrees of capital intensiveness in the production of products.
85. Compare different industries in their degree of capital intensiveness.
86. Describe the effect of time preference on the methods of production used, the kinds of products produced, and the relative size of various industries.
87. Explain how the existence of time preference operates to keep capital in its "vertical dimension" permanently scarce.
88. Describe the extent to which capital would have to be accumulated before the scarcity of capital in its vertical dimension could be overcome.
89. "It is always necessary to leave undone an incalculable range of potential improvements whose execution would require a more abundant accumulation of capital in its vertical dimension than exists." Discuss.
90. Describe the relationship between time preference, on the one side, and the degree of rationality and economic freedom in a society, on the other.
91. Explain the relationship between wealth and human labor.
92. What is meant by a product? A producer?
93. Explain why the concept of labor is not limited to manual labor in a division-of-labor society. What other type of labor is very important, which achieves its effects by working through the manual labor of others?
94. "Man does not create the matter that natural resources represent, but he does create their *wealth-character*." Explain.
95. "The scarcity of wealth implies a more fundamental *scarcity of labor*." Explain.
96. Explain how the scarcity of labor is manifest in the fact that virtually everyone would like to enjoy an income many times greater than the income he is presently capable of earning.
97. Why would it be necessary physically to produce five times as much if the average member of society were to have five times the real income (i.e., buying power) that he now has. (Why wouldn't giving everyone five times the money income make possible this greater real income?)
98. To have all the goods and services we would like to consume, approximately how much labor would we have to perform on average per week, in the present state of technology, in order to produce it?
99. "The supply of labor that people can provide falls radically short of the supply whose products they would like to have." Explain.

100. Describe the extent to which the scarcity of personal services adds to the scarcity of labor.

101. "Each of us is easily capable of forming desires whose fulfillment requires the labor of multitudes, and yet by the laws of arithmetic, the average member of any society can never obtain more than the labor, or products of the labor, of just *one* person." Discuss the implications for the scarcity of labor.

102. If labor is fundamentally scarce, why is there ever a problem of mass unemployment?

103. Explain why the scarcity of labor is *ineradicable*, i.e., is not eliminated either by a larger supply of labor or by a higher productivity of labor.

104. "The fundamental and essential nature of economic life is this: the need and desire for additional wealth are there and the nature-given means of producing it are there; all that is lacking is the ability of human labor to transform the nature-given means of production into additional wealth." Discuss.

105. What is meant by "the economic problem"?

106. What are the underlying foundations of the economic problem?

107. What is an important subsidiary problem that is also frequently referred to as the economic problem?