

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

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### **CHAPTER 5. DEPENDENCE OF THE DIVISION OF LABOR ON CAPITALISM**

#### **PART A. THE NATURE OF THE DEPENDENCIES**

1. Explain why, by the very nature of the leading benefits it provides, namely, the multiplication of knowledge and the gains from the existence of geniuses, a division-of-labor society depends on the institution of private ownership of the means of production. (Hint: the connecting links are separate, independent knowledge and the consequent need for separate independent action and production.)
2. Explain the fundamental incompatibility of socialism and collectivism with a division-of-labor society. In your answer, bear in mind the socialist prescription of "central planning," viz., the whole of society functioning as one, indivisible unit in the conduct of the economic system.
3. Explain why socialism in fact always represents contradictory, partial planning, not any form of coordinated central planning.
4. Describe how capitalism is characterized by economic planning on the part of all of the individual participants in the economic system--businessmen, wage earners, and consumers.
5. Explain how the virtually omnipresent private economic planning that goes on under capitalism could have been overlooked by the great majority of today's intellectuals and media and the significance of this fact.
6. Explain the error underlying the use of the expression "economic planning" as a synonym for *government* planning.
7. Describe how the economic planning of individuals under capitalism is based on prices and how the resulting economic calculations provide a standard of action for the planner under capitalism.
8. Explain why the standard of action that the consideration of prices and costs provides to the planner under capitalism, is *objective* in the light of his desire to obtain more wealth.
9. Explain and illustrate how prices serve to coordinate and harmonize the plans of each individual under capitalism with the plans of all other individuals in the economic system.
10. Explain the dependence of the price system on the profit motive and the freedom of competition.
11. Explain the dependence of the profit motive and the freedom of competition in turn on private ownership of the means of production.
12. Explain why in a division-of-labor society exchange must exist on a massive scale and be a central feature of economic life.
13. Explain the dependence of a division-of-labor society specifically on *monetary* exchange and how the absence of money would make impossible the existence of any substantial degree of division of labor. In your answer, be sure to explain the dependence on money with respect both to the problem of the double coincidence of wants and the matter of economic calculation.

14. In the light of its essential role in the division of labor, appraise the truth of the frequent contention that "money is the root of all evil."
15. Explain how saving is vital to the development of the division of labor.
16. Explain what is meant by the "the division of payments," how it is essential to the vertical aspect of the division of labor, and how it depends on saving.
17. Explain the role of economic competition with respect to the organization of the division of labor.
18. Explain the role of the freedom of competition with respect to safeguarding a division-of-labor society from possible extortion by the members of individual vital industries.
19. Explain why economic inequality is a virtually inevitable result of economic freedom.
20. Explain how the imposition of economic equality represents the destruction of the individual's ability to regard himself as a causal agent and thus must radically reduce production both under the division of labor and under any other arrangement.
21. Explain how economic inequality enables less capable individuals to compete with more capable individuals.

### **PART B. ELEMENTS OF PRICE THEORY: DEMAND, SUPPLY, AND COST OF PRODUCTION**

1. What is meant by the concepts demand and supply in classical economics?
2. What is meant by these concepts in contemporary economics?
3. State the law of demand.
4. Explain three reasons why the law of demand exists.
5. Explain the difference between a change in quantity demanded and a change in demand.
6. Describe the kinds of factors that cause changes in demand.
7. What is meant by the elasticity of demand?
8. Explain the use of the total spending/total revenue criterion in distinguishing between demands that are elastic, inelastic, or unit elastic.
9. Why do cases of close substitutes and luxury goods represent examples of demands that are likely to be elastic?
10. Why do cases of poor substitutes and necessities represent examples of demands that are likely to be inelastic?
11. What is the leading example of a unit elastic demand, and why?
12. Use the concept of elasticity of demand to explain the differing effects of improvements in output per worker on the number of workers employed in an industry in different circumstances.
13. Use the concept of elasticity of demand to explain the possible impact on a company's profits of charging a higher or lower price.
14. Explain why elasticity does not remain constant even over the length of the same demand curve.
15. Explain why, even though the basic case is that of a vertical supply line reflecting a given quantity that sellers are prepared to sell at the best price they can obtain, supply curves often slope upward and to the right.
16. Explain why the marginal utility of sellers is actually not a significant reason for upward sloping supply curves.

17. Explain why the law of diminishing returns is usually not relevant to upward sloping supply curves in the short run.
18. Explain in what context the apparent determination of price by supply and demand curves actually represents determination of price on the basis of cost of production.
19. Why is it incorrect to try to derive supply and demand curves by observing changes in price and quantities demanded and supplied over time?
20. Explain why cases in which both prices and quantities demanded rise over time do not contradict the law of demand.