Chapter 15 (Includes Review of Chapter 14, Part B, Section 3)

_____1. The volume of spending in the economic system is a measure of the quantity of money that exists, not of the volume of wealth that is produced.

_____2. The use of price indexes to adjust the volume of spending for changes in the price level makes possible a precise measure of what is produced.

_____3. The concept of gross product properly includes the production of capital goods such as flour and wheat and steel and iron ore.

_____4. Productive consumption is consumption for the purpose of production.

_____5. The *net* product of the economic system is
a. the gain from production
b. equal to the final product
c. the difference between the gross product and productive consumption
d. all of the above
e. none of the above

_____6. According to most of today's textbooks, what a producer produces is
a. simply his actual product, such as bread in the case of a bakery and steel in the case of a steel mill
b. the difference between his actual product and the previously produced means of production he uses up in producing it—for example, the difference between bread and flour or the difference between automobiles and steel sheet

_____7. According to most of today's textbooks, wheat farmers and flour millers respectively produce only wheat and flour, not bread.

_____8. What contemporary economics describes as the gross product of the economic system is actually a highly netted product.

_____9. According to the prevailing concept of gross product, to claim that both bread *and* flour or both automobiles *and* steel are produced is to claim that more is produced than is in fact produced and thus to commit the error of double counting.

_____10. According to contemporary economics, the production of the final products already counts the production of all the products leading up to their production, which is why it represents double counting to count them again, separately.

_____11. In reporting both so many million automobiles and so many million tons of steel as being produced in the United States in a given year, *The Statistical Abstract of the United States* must be judged guilty of the alleged error of double counting.

_____12. The view that one's product is not one's actual physical product but an abstraction, i.e., the conceptual *difference* between one's product and the previously produced means of production one uses up to produce it implies that the total product of the economic system
a. is essentially just the production of consumers' goods, i.e., of "final products"
b. that the total production of the economic system is measured by the sum of values added to the previously produced means of production
c. that the total production of the economic system is measured by the value of the final product
d. all of the above

_____13. What leads to the conclusion that a final product, such as bread, counts all the intermediate products whose production is necessary to its production is
a. viewing the final product as though it consisted of a bundle of abstractions, i.e., the conceptual product differences that each producer allegedly produces at the various stages leading up to the final product
b. taking apart and putting together this collection of abstractions to represent different entities and in the process often altogether forgetting the existence of one or more of the conceptual product differences
c. adopting a Platonic-Heraclitean view of the nature of entities
d. all of the above
e. none of the above

_____14. The belief that the value of the final product counts the value of the intermediate products in addition to its own value rests on
a. expressing the value of the final product in various mutually exclusive alternative formulations
b. ignoring one or more terms in all but one of the alternative formulations
c. adding up the remaining elements of the mutually exclusive alternative formulations
d. all of the above
e. none of the above

_____15. The belief that the value of the final product counts the value of the intermediate products in addition to its own value rests represents a twofold violation of the laws of arithmetic.

_____16. The belief that the value of the final product counts the value of the intermediate products in addition to its own value entails a double counting of the value of the final product.

_____17. Productive expenditure is
a. expenditure for the purpose of producing goods and services
b. expenditure for the purpose of making subsequent sales

_____18. Consumption expenditure is expenditure not for the purpose of making subsequent sales.

_____19. An individual grows richer through productive expenditure and poorer through consumption expenditure.

_____20. In buying a consumers' good, one buys
a. the consumers' good one buys
b. the factors of production that were used up to produce the consumers' good one buys
c. the factors of production that the sellers of the consumers' good will buy with the pieces of money received in exchange for the consumers' good one buys
d. the products into which the good one buys will be made
e. all of the above
f. none of the above

_____21. In buying a consumers' good, one pays for the seller's research and development outlays and for his political and charitable contributions.

_____22. It is often believed that in buying a consumers' good one also buys
a. the factors of production that were used up to produce the consumers' good one buys
b. the factors of production that the sellers of the consumers' good will buy with the pieces of money received in exchange for the consumers' good one buys
c. the products into which the good one buys will be made
d. all of the above

_____23. In buying a consumers' good, one buys simply and only the consumers' good.

_____24. A quantity of wheat is produced that sells for $100 and is used to produce a quantity of flour that in turn sells for $150. The flour is then used to produce a quantity of bread that sells for $225. State the total value of what is produced.

_____25. A quantity of wheat is produced that sells for $100 and is used to produce a quantity of flour that in turn sells for $150. The flour is then used to produce a quantity of bread that sells for $225.
a. the total value of what is produced is $475
b. the total value of what is produced is $225

_____26. The belief that in buying a consumers' good one buys everything necessary to its production supports the belief that saving is hoarding.

_____27. The proposition that "the demand for A is the demand for A"
a. means, for example, that the purchase of an automobile is the purchase simply and only of that automobile and not the purchase of the automobile and the steel used to make it
b. is a restatement of John Stuart Mill's proposition that "demand for commodities is not demand for labor," in a positive and more extended form
c. serves to prevent confusing real entities and real purchases with "shadow entities and shadow purchases"
d. all of the above
e. none of the above

_____28. The belief that wheat and flour are in bread because the bread was made from flour that was made from wheat implies that ice is in steam if the steam came from water that came from ice.

_____29. The difference between a real purchase of bread, flour, and wheat and a "shadow-entity" type purchase is that in the first case one leaves the store with three distinct items, while in the second one leaves only with bread.

_____30. The notion that in buying the final product one buys the labor and capital goods necessary to its production is consistent with the fact that businessmen need capital in order to buy the means of production

_____31. The notion that in buying the final product one buys the labor and capital goods necessary to its production does not imply that in eating a loaf of bread one eats flour, wheat, and tractor parts.

_____32. The fact that one buys the output is proof that one has *not* bought the inputs.

_____33. If someone in fact bought flour and paid the wages of bakers and then were charged for the resulting bread, he would be in the position of a man forced to buy his own property.

_____34. "The demand for consumers' goods is not only not a demand for factors of production, but is *in competition* with the demand for factors of production."

_____35. If the sellers of consumers' goods used the whole of their sales proceeds to consume, their demand for factors of production would
a. rise to infinity, according to the Keynesian multiplier analysis
b. fall to zero
c. both (a) and (b)
d. neither (a) nor (b)

_____36. If wealthy businessmen decide to withdraw funds from their firms in order consume in the form of buying yachts, say, the effect will be
a. an increase in the demand for capital goods and labor by the yacht-building industry
b. a decrease in the demand for capital goods and labor by the industries producing capital goods
c. a decrease in the overall demand for capital goods and labor in the economic system to the extent that the purchase of yachts takes the place of the purchase of capital goods and labor
d. all of the above
e. none of the above

_____37. A rise in the demand for consumers' goods at the expense of the demand for factors of production increases the proportion of the demand for factors of production that is made by the consumers' goods industries while reducing the overall size of the demand for factors of production in the economy as a whole.

_____38. The only income of any significance that could be increased by virtue of the repeated rounds of consumption expenditure depicted in the multiplier process would be profit income, not wage income.

_____39. Saving is
a. the nonspending of funds
b. hoarding
c. the nonconsumption of funds
d. all of the above
e. none of the above

_____40. People of limited education and with no business experience are especially prone to confuse saving with hoarding because they have no first-hand familiarity with productive expenditure and thus conclude that if funds are not consumed, they are simply not spent.

_____41. The fallacy that saving is hoarding
a. appears in the financial press when fears are expressed that a rise in saving portends a recession or depression
b. is accompanied by the belief that investment spending comes virtually out of nowhere and is expansionary
c. is present in contemporary economics texts when they describe saving as a "leakage" from the spending stream
d. all of the above
e. none of the above

_____42. Most present-day economics textbooks describe the macroeconomic effects of taxes and government spending as the same as saving and investment, i.e., the one as representing hoarding and the other as representing new and additional spending, virtually out of nowhere.

_____43. The belief that saving is hoarding
a. can apply to a given individual in certain circumstances
b. represents the fallacy of composition when it is applied to the economic system as a whole
c. both (a) and (b)
d. neither (a) nor (b)

_____44. When large-scale hoarding, i.e., an increase in the demand for money for holding, actually occurs it
a. causes a decline in sales revenues, profits, and business net worth
b. causes unemployment and dissaving by the unemployed
c. is the cause of an overall reduction in savings
d. all of the above
e. none of the above

_____45. When it occurs on a significant scale, "hoarding"
a. has nothing fundamentally to do with any attempt to save or to save more
b. does not originate with consumers
c. represents the attempt of business firms and investors to convert previously accumulated savings from their usual form of investments in physical assets or claims to physical assets, into cash, in an effort to become more liquid
d. all of the above
e. none of the above

_____46. "Hoarding"
a. comes about after inflation and credit expansion have created the potential for a sudden rise in the demand for money for holding by first causing an undue decline in the demand for money for holding and the consequent creation of a state of illiquidity
b. operates to increase the degree of liquidity in the economic system—i.e., the ratio of the quantity of money to such magnitudes as current liabilities—and finally to put an end to the desire further to increase cash holdings
c. can be prevented from having harmful consequences by means of avoiding inflation and credit expansion
d. all of the above
e. none of the above

_____47. What is saved is not only spent, but is the source of *most* spending in the economic system inasmuch as saving is the foundation of all of the productive expenditure that is made out of business sales revenues.

_____48. Saving is the foundation of
a. the demand for goods at wholesale
b. the demand for all capital goods, i.e., the demand for all buildings, machinery, materials, components, and supplies by business firms
c. the demand for labor by business firms
d. the demand for expensive consumers' goods
e. all of the above
f. none of the above

_____49. The proposition that saving is the source of most spending in the economic system is implied
a. by the fact that profit margins are typically on the order of ten percent or less
b. costs and thus productive expenditure relative to sales are typically on the order of ninety percent or more
c. a substantial portion of costs and the productive expenditure that gives rise to them are for capital goods, behind which there are further substantial costs and productive expenditure
d. all of the above

e. none of the above

_____50. A rise in the rate of saving raises the demand for houses and expensive consumers' goods in general.

_____51. All the wages of the employees of business firms are paid out of saving and productive expenditure by the business firms; essentially only the wages of domestic servants and government employees are paid out of consumption expenditure.

_____52. Via the payment of wages and salaries, saving and productive expenditure are the source of almost all consumption expenditure.

_____53.
a. Financially the individual business firm is vitally dependent on the consumers, because it must compete with other business enterprises for the funds that the consumers can choose to spend on the one or the other business firms
b. From the perspective of the economic system as a whole, however, it is the consumers who are vitally dependent on business, because "money comes to goods"—i.e., all the funds in the consumers' posesssion are sooner or later inevitably drawn from them to business in buying the goods and services necessary to their survival, well-being, and enjoyment, with the result that they must obtain fresh money from business
c. both (a) and (b)
d. neither (a) nor (b)

_____54. Through its productive expenditure and through the consumption expenditure of its owners and creditors, business is the source of its own demand and profitability, with the result that there is no need for government created outside consumption.

_____55. In making possible capital accumulation and rising production, saving
a. is the source of an increasing aggregate demand in real terms
b. is the source of an increasing aggregate demand in monetary terms
c. in the long run, is the source of rising consumption in both real and monetary terms, as the post–World War II history of Japan and other Asian economies vividly illustrates
d. all of the above
e. none of the above

_____56. Given the same quantity of money in the economic system, to the extent that savings are used to pay wages, and the wage earners consume their wages, the effect is to leave aggregate consumption unchanged, with consumption by wage earners taking the place of consumption by the savers.

_____57. The fact that national income equals consumption plus net investment and that consumption often exceeds net investment by more than ten to one implies that most of national income is paid by consumption expenditure.

_____58. The equality between national income (i.e., the sum of profits plus wages), on the one side, and net national product (i.e., the sum of consumption expenditure plus net investment), on the other, is in fact an identity in which the only difference between the two sides is a change in the order of addition of the exact same revenue-expenditure subcomponents.

_____59. Net investment
a. equals productive expenditure minus business costs—the same costs as are deducted from sales revenues in calculating aggregate profits
b. like the visible portion of an iceberg, is the heading under which most spending in the economic system is concealed
c. equals net investment in plant and equipment plus net investment in inventories
d. equals productive expenditure on account of plant and equipment minus depreciation cost, plus productive expenditure on account of inventory and work in progress minus cost of goods sole, plus productive expenditure not debited to any asset account minus the costs represented by such productive expenditure
e. all of the above
f. none of the above

_____60. Gross national revenue (GNR)
a. equals total business sales revenues plus wage payments
b. equals the sum of consumption expenditure plus productive expenditure
c. both (a) and (b)
d. neither (a) nor (b)

_____61. Gross national revenue (GNR)
a. reduces to national income if costs are subtracted from sales revenues
b. reduces to net national product if costs are subtracted from productive expenditure
c. both (a) and (b)
d. neither (a) nor (b)

_____62. Gross national revenue (GNR) reduces to GNP if all costs but depreciation are deducted from productive expenditure, which is equivalent to adding depreciation to net national product.

The following pertains to the next *eleven* questions. Assume that the demand for consumers' goods is 1000 units of money, the demand for capital goods is also 1000 units of money, the demand for labor by business firms is 800 units of money, the demand for labor by consumers is 100 units of money, and total business costs deducted from sales revenues are 1700.

_____63. Find aggregate profits.

_____64. Find aggregate wages.

_____65. Find national income.

_____66. Find total consumption.

_____67. Find net investment.

_____68. Find net national product.

_____69. Find total sales revenue and income payments in the economic system.

_____70. Find the portion of total sales revenue and income payments constituted by consumption expenditure.

_____71. Find the portion of total sales revenue and income payments constituted by productive expenditure.

_____72. What portion of wages is paid by consumption expenditure?

_____73. What portion of wages is paid by productive expenditure?

The following pertains to the next 4 questions. One-hundred of additional net investment takes place, generated by 100 of additional demand for capital goods, and the Keynesian "marginal propensity to consume" is .75.

_____74. Find the "investment multiplier."

_____75. Find the alleged increase in national income.

_____76. How much of the additional national income is wages?

_____77. How much of the additional national income is profits?

The following pertains to the next 4 questions. Once again, one-hundred of additional net investment takes place, generated this time by 50 of additional demand for capital goods and 50 of additional demand for labor by business. This time, the Keynesian "marginal propensity to consume" is .90.

_____78. Find the "investment multiplier."

_____79. Find the alleged increase in national income.

_____80. How much of the additional national income is wages?

_____81. How much of the additional national income is profits?

_____82.

a. The only incomes raised by the successive rounds of consumption expenditure envisioned by the multiplier doctrine would be profits, not wages.
b. Any rise in wages, in the demand for goods at wholesale, in the demand for capital goods of any kind depends on *saving*, which the Keynesians regard as a "leakage" and as allegedly diminishing the amount of subsequent incomes.
c. both (a) and (b)
d. neither (a) nor (b)

_____83.

a. Real wages depend on the productivity of labor.
b. The productivity of labor depends on the supply of capital goods per worker, increasing as it increases, decreasing as it decreases.
c. both (a) and (b)
d. neither (a) nor (b)

_____84. The determinants of changes in the supply of capital goods are

a. the production of capital goods relative to the production of consumers' goods
b. the demand for capital goods relative to the demand for consumers' goods
c. the degree of saving in the economic system
d. the productivity of capital goods
e. all of the above
f. none of the above

_____85. All capital goods are sooner or later used up or worn out in the course of production and must be replaced through the fresh production of capital goods. The proportion of the economic system's output that needs to be in the form of capital goods in order to replace the capital goods used up or worn out is called the _____ proportion.

_____86. The higher is the degree of saving,

a. the greater is the demand for capital goods relative to the demand for consumers' goods
b. the greater is the production of capital goods relative to the production of consumers' goods
c. the more rapid is capital accumulation, once the relative production of capital goods exceeds the maintenance proportion
d. all of the above
e. none of the above

_____87. The assumption that the output of the economic system increases in proportion to the increase in the supply of capital goods appears to contradict

a. the law of diminishing marginal utility
b. the law of diminishing returns
c. both (a) and (b)
d. neither (a) nor (b)

_____88. Technological progress is necessary

a. to keep up the rate of profit by providing additional investment opportunities for the growing supply of capital goods made possible by additional saving
b. to make possible continued capital accumulation in the face of the existence of the law of diminishing returns
c. both (a) and (b)
d. neither (a) nor (b)

_____89. Technological progress is necessary to keep up the productivity of capital goods as the supply of capital goods increases.

_____90. The relationship between technological progress and capital accumulation is
a. one of cause to effect
b. reciprocal in that the implementation of more advanced technologies typically requires a larger supply of capital goods
c. both (a) and (b)
d. neither (a) nor (b)

_____91. Capital accumulation is fostered by
a. economic freedom, including free international trade and freedom of immigration for self-supporting immigrants
b. anything that contributes to the ability to produce in general
c. a higher degree of saving and provision for the future
d. respect for property rights
e. all of the above

_____92. Economic freedom promotes capital accumulation by virtue of
a. promoting saving and thereby the demand for and production of capital goods relative to the demand for and production of consumers' goods
b. raising the productivity of capital goods
c. reducing the maintenance proportion
d. all of the above
e. none of the above

_____93. Under the conditions of an invariable money, an increase in saving and the relative demand for capital goods is necessary in order to achieve
a. capital accumulation
b. an acceleration in the rate of capital accumulation

_____94. The rapid economic progress of Japan over the last forty years or more is the result of
a. high saving rates, which have resulted in the relative production of capital goods far surpassing the maintenance proportion, and of a high productivity of capital goods based on industriousness and innovativeness
b. the application of advances in statistical techniques making possible greatly improved quality control in Japanese manufacturing compared with American manufacturing
c. the Samurai heritage of the Japanese

_____95. The relative stagnation of the American economy over the last generation is the result of
a. a lower demand for capital goods relative to consumers' goods than in the past, caused by government economic policies hostile to saving
b. a lower productivity of capital goods than in the past, resulting from government interference that increases cost per unit and equivalently reduces output per unit of cost
c. both (a) and (b)
d. neither (a) nor (b)

_____96. The stagnation and retrogression of socialist economies, such as that of the former Soviet Russia, was the result of
a. too low a concentration on the production of capital goods and the building up of heavy industry
b. the profound inefficiencies of socialism resulting from its lack of a price system and of profit-and-loss incentives
c. both (a) and (b)
d. neither (a) nor (b)

_____97. Recognizing the separate existence of the demand for capital goods, and the separate, distinct production of capital goods, is not necessary in order to understand that an additional supply of capital goods serves to increase the supply of capital goods as well as the supply of consumers' goods.

_____98. The failure to recognize the separate existence of the demand for capital goods and the corresponding separate production of capital goods leads to
a. an inadequate appreciation of the role of saving in capital accumulation, which is as force to acceleration
b. a corresponding overemphasis on the role of saving in capital accumulation, which is mistakenly seen as one to one
c. an inability to recognize the role of technological progress as a cause of capital accumulation in serving to maintain the productivity of an increasing supply of capital goods
d. an inability to grasp the principle that capital accumulation is fostered by anything that increases the ability to produce in general, such as, above all, economic freedom
e. all of the above
f. none of the above

The following is a 5-part question.

_____99. The demand for consumers' goods is 500 monetary units and the demand for capital goods is 500 monetary units. Taking the demand for capital goods as total costs on account of capital goods, find national income.

_____100. The demand for consumers' goods now falls to 400 monetary units and the demand for capital goods rises to 600 monetary units. Again taking the demand for capital goods as total costs on account of capital goods, find national income.

_____101. The answers to the preceding two questions imply that in the context of an economic system with an invariable money, the relationship between national income and economic progress and prosperity is inverse, because capital accumulation will be greater when the demand for capital goods rises relative to the demand for consumers' goods, even though as a result national income falls.

_____102. The answers to those same two questions referred to in the previous question imply that in the context of an economic system with an invariable money, national income is basically the counterpart just of consumption expenditure.

_____103. In the context of the economic system with a 600 demand for capital goods and a 400 demand for consumers' goods, *real* incomes would soon far surpass, and further and further surpass, real incomes in the economic system with a 500 demand for capital goods and a 500 demand for consumers' goods. In that former ecoomic system, the mechanism by which economic progress raises *real* incomes is

a. the average member of the society earns more and more money with every passing year
b. prices fall year after year while the money income of the average member of the society remains the same

The following pertains to the next 4 questions. The "balanced-budget multiplier" of the Keynesians claims that equal increases in taxes and government spending cause a rise in national income that is equal to the rise in taxes or government spending because the tax multiplier is one less in absolute value than the government spending multiplier while being opposite in sign. Taking the "marginal propensity to consume" as .75,

_____104. Find the government spending multiplier, using the same basic formula as for the investment multiplier.

_____105. Find the tax multiplier.

_____106. Find the effect on national income of a rise in government spending and taxes of $100 billion.

_____107. The significance of the rise in national income in the preceding question is

a. that higher taxes are actually costless in the aggregate because national income rises by enough to pay for them
b. that it illustrates the inverse relationship between national income, on the one side, and capital accumulation, economic progress, and prosperity, on the other
c. both (a) and (b)
d. neither (a) nor (b)

_____108. The doctrine of the "Conservatives' Dilemma"

a. is based on the doctrine of the balanced-budget multiplier
b. claims that fiscal conservatives must choose between their basic values of balanced budgets and small government, because achieving a given rise in national income requires only a relatively modest increase in government spending if the additional government spending is financed by a budget deficit but requires a much greater increase in government spending if the additional government spending is to be financed by equivalent additional taxes. (This is because in the first case the government-spending multiplier allegedly applies, while in the second case only the much smaller balanced-budget multiplier applies.)
c. is overthrown by recognition of the inverse relationship between national income and economic progress and prosperity, which recognition rests on the realization that the increase in national income entails reducing the demand for capital goods relative to the demand for consumers' goods
d. all of the above
e. none of the above

Answers to Questions 1-108 on Chapter 15

Question #	Correct Answer	Question #	Correct Answer	Question #	Correct Answer	Question #	Correct Answer	Question #	Correct Answer
1	T	26	T	51	T	76	zero	101	T
2	F	27	d	52	T	77	400	102	T
3	T	28	T	53	c	78	10	103	b
4	T	29	T	54	T	79	1000	104	4
5	d	30	F	55	d	80	50	105	-3
6	b	31	F	56	T	81	950	106	$100 billion
7	F	32	T	57	F	82	c	107	b
8	T	33	T	58	T	83	c	108	d
9	T	34	T	59	e	84	e		
10	T	35	c	60	c	85	maintenance		
11	T	36	d	61	c	86	d		
12	d	37	T	62	T	87	b		
13	d	38	T	63	300	88	b		
14	d	39	c	64	900	89	T		
15	T	40	T	65	1200	90	c		
16	T	41	d	66	1100	91	e		
17	b	42	T	67	100	92	d		
18	T	43	c	68	1200	93	b		
19	T	44	d	69	2900	94	a		
20	a	45	d	70	1100	95	c		
21	F	46	d	71	1800	96	b		
22	d	47	T	72	100	97	F		
23	T	48	e	73	800	98	e		
24	$475	49	d	74	4	99	500		
25	a	50	T	75	400	100	400		