Chapter 18

_______1. An economist's acceptance of the proposition that unemployment can be eliminated by a fall in wage rages and prices implies opposition on his part to labor legislation and all other government intervention that stands in the way of wage rates falling in the face of unemployment.

_______2. In view of the influence of the Marxian exploitation theory, opposition to government intervention on the side of raising and maintaining wage rates
a. opened an economist up to the condemnation of being ready to leave wage earners defenseless against exploitation by businessmen and capitalists
b. required that an economist be able to refute the Marxian exploitation theory if he wished to overcome such condemnation, which was a task beyond the ability of most economists
c. required that an economist who was capable of refuting the Marxian exploitation theory take a stand in opposition to the overwhelming intellectual current of the time
d. all of the above

_______3. The essential claim of Keynesianism is that a free market in labor and fall in wage rates is incapable of eliminating unemployment and that mass unemployment is an inescapable feature of a capitalist economic system in modern conditions.

_______4. A leading implication of Keynesianism is that there is no need for economists to oppose government interference raising or maintaining wage rates, since the abolition of such interference would not serve to eliminate unemployment in any case, and thus that there is no reason for economists to have to be in a state of conflict with the prevailing opinion of virtually all other intellectuals.

_______5. According to Keynesianism, the solution for mass unemployment is "fiscal policy," by which, in essence, is meant that the government must adopt a policy of budget deficits.

_______6. According to Keynesianism, the more the government spends for any purpose—even for the least valuable programs imaginable, such as pyramid building—the more prosperous must the economic system become.

_______7. Keynesianism was a source of intellectual relief for many economists, because his ideas filled what perhaps the majority of economists experienced as a vital need—it gave them a way out of conflict with the rest of the intellectual world and with a good portion of their own convictions. For if Keynes were right, economists need not oppose labor legislation. Indeed, they could join in the calls for expanded government intervention.

_______8. Such ideas as that pyramid building and budget deficits are economically beneficial marks Keynesianism as an enemy both of common sense and the love of liberty (viz., the freedom from excessive government, which excess is fostered by the policy of budget deficits).

_______9. Keynesianism
a. holds that even though the quantity of money in the economic system remains the same, a fall in wage rates and prices is accompanied by proportionately less spending, since it alleges that there is no increase in the quantity of goods and labor demanded at the lower prices and wages
b. is incompatible with the quantity theory of money
c. is a species of consumptionism
d. all of the above

_______10. The success of Keynesianism in overcoming opposition was the result in large part of the unnecessary abandonment two generations earlier of the main body of classical economic thought in the mistaken belief that it supported Marxism, in particular the abandonment of classical economics' views on the wages fund doctrine and the role of saving in spending.

_______11. Neo-Keynesianism
a. arose in response to some relatively mild criticism of Keynes levied by A. C. Pigou, a colleague at Cambridge University
b. admits that a fall in wage rates would be capable of eliminating unemployment, but claims that the fall would have to be enormously out of proportion to any additional employment achieved, with the implication that in the process of achieving full employment virtually every debtor would be bankrupted, because the grossly disproportionate drop in wage rates and prices implies correspondingly large reductions in aggregate spending and revenues and thus in the ability to repay debts.
c. claims that a necessary condition of prices being able to fall would be the adoption of a radical antitrust policy, or a program of widespread nationalization of industry, as the means of establishing "price competition," because big business, left to its own devices, is "oligopolistic" and practices "administered pricing"—i.e., won't reduce prices
d. fully agrees with Keynesianism with respect to the conclusion that a free economy cannot have full employment
e. all of the above

_______12. The neo-Keynesians are led to conclude that reductions in wage rates and prices can have only a relatively modest impact on the increase in employment and output because the only mechanism they can imagine by which a fall in wage rates and prices can increase the quantity of goods and labor demanded is by virtue of its effect in increasing the buying power of the stock of money and on that basis increasing the demand for consumers' goods and thereby creating additional employment.

_______13. Pigou's doctrine is even weaker than the Keynesians themselves recognize, because if the money supply of the economic system rests on a fractional reserve, and if it were the case that there must be some significant drop in total spending accompanying the fall in wage rates and prices, then there would be substantial business failures, which would result in substantial bank failures and in a reduction in the quantity of money. In such a case, the "Pigou effect" would be reduced to depending on the ability of a fall in wage rates and prices to raise the purchasing power not of a fixed stock of money (which would not be fixed, but falling) but of a much more limited fixed monetary base.

_______14. Samuelson and Nordhaus depart both from Keynesianism and traditional neo-Keynesianism in their explanation of unemployment as being caused by wage-rate rigidities rather than by the alleged perfect inelasticity or at least extremely high inelasticity of the aggregate demand curve.

_______15. When they say, "The classical approach holds that prices and wages are flexible, so the economy moves to its long-run equilibrium very quickly," Samuelson and Nordhaus

a. misrepresent the views of the classical economists, who never maintained that wages and prices are flexible in the face of minimum-wage and prounion legislation and similar government interference
b. ignore the existence of such government interference
c. both (a) and (b)

_______16. When they say that the classical economists preached "that persistent unemployment was impossible," Samuelson and Nordhaus ignore the fact that the classical economists' proposition was intended to apply only to a labor market free of government interference, not to one in which such interference prevents a fall in wage rates.

_______17. Choose the answer which is most completely true.

a. According to Samuelson and Nordhaus, Keynes emphasized that because wages and prices are inflexible, there is no economic mechanism to restore full employment and ensure that the economy produces its potential.
b. Keynes's actual position was that there is no way for a free economy, which *has* flexible wages and prices, to achieve full employment.
c. Samuelson and Nordhaus's claim represents an unadmitted capitulation to the claims of classical economists, in that it concedes that what stands in the way of full employment is a failure of wage rates to fall and thereby increase the quantity of labor demanded.
d. all of the above

_______18. As presented by Samuelson and Nordhaus, what remains of the Keynesian position is merely an obstinate refusal to challenge the government intervention that is responsible for mass unemployment, and an insistence that the problem of unemployment be dealt with by means of still more government intervention.

_______19. The Keynesian doctrine of the unemployment equilibrium is the claim that

a. a fall in wage rates and prices is incapable of increasing the quantity of labor demanded, because it is accompanied by a corresponding fall in the aggregate monetary demands for consumers' goods and labor
b. a free economy cannot escape from mass unemployment
c. both (a) and (b)

_______20. The Keynesian aggregate demand curve is identical to the consumptionist aggregate curve presented in Chapter 13 except for the horizontal axis representing employment as well as output, and the use of the letter *Y* to denote output.

_______21. The claim of many union leaders that wage rate reductions result in proportionate reductions in consumer spending

a. is often thought to be the basis of the Keynesian aggregate demand curve
b. is fallacious because while the wage-rate reductions reduce the spending of the individual wage earner, they increase the number of workers employed and thereby enable the same overall level of spending to be maintained by the individually smaller spending of a larger number of workers, which unchanged level of overall spending is sufficient to buy the output of the larger number of workers by virtue of lower prices
c. both (a) and (b)

_______22. The fall in wage rates to their equilibrium, i.e., full-employment, level is in fact almost certain to be accompanied by a rise in total payroll spending and in productive expenditure as a whole, because it brings out the investment expenditures which had been postponed, awaiting the fall in wage rates. Thus, in actuality, it is accompanied by a rise in the aggregate monetary demands for labor and for goods, both consumers' goods and capital goods.

_______23. The actual basis of the vertical Keynesian aggregate demand curve is

a. the claim of many union leaders that wage rate reductions result in proportionate reductions in consumer spending
b. the *IS* curve

_______24. The *IS* curve

a. is the relationship alleged by the Keynesians between the “marginal efficiency of capital” (viz., the rate of profit and interest), on the one side, and the volume of output and employment, on the other, for equilibria of investment and saving
b. purports to show that as output and employment expand, as measured along the horizontal axis, the rate of return on capital falls, as measured along the vertical axis
c. both (a) and (b)

_______25. The *IS* curve underlies the Keynesian aggregate demand curve in that the Keynesians claim that at the point of full employment on the *IS* curve, namely Y_f and its corresponding output, the rate of return would either be negative or, if not negative, at least unacceptably low (below 2 percent is the usual estimate of what is unacceptably low). This alleged insufficiency of the rate of return that would exist if full employment were achieved is supposed to be the reason that full employment cannot exist, or if it did exist, could not be maintained.

_______26. The Keynesian argument for an unemployment equilibrium is based on the claim that the achievement of full employment would entail a rate of profit and interest too low for investment to be worthwhile. And thus, if somehow full employment were achieved, say the Keynesians, savings would be hoarded rather than invested, with the effect being a drop in spending for output and labor and a reduction in output and employment below the full-employment level, which would go on until sufficient movement had taken place up and to the left along the *IS* curve to raise the rate of return on capital back up to the alleged minimum acceptable rate of return.

_______27. While 2 percent is the figure most often cited as the minimum acceptable rate of return, nothing depends on that specific assumpiton. If the minimum acceptable rate of return were instead assumed to be zero, the Keynesian argument could simply be recast as claiming that full employment required a rate of return below zero.

_______28. The *IS* curve is derived from
a. the production function
b. the saving function
c. the equality of investment with saving
d. the marginal efficiency of capital schedule
e. all of the above

_______29. The production function describes the relationship between the quantity of labor employed, on the vertical axis, and the quantity of output (real national income) produced, on the horizontal axis.

_______30. The “saving function”
a. is the Keynesian doctrine that a definite, determinate mathematical relationship exists between the level of income, on the one side, and the volume of saving out of income, on the other
b. when diagrammed shows saving on the vertical axis and national income on the horizontal axis
c. is the corollary of the more widely known Keynesian doctrine of the “consumption function,” according to which consumption spending is mathematically determined by the level of income
d. is derived by subtracting the consumption function from national income
e. is presented as the algebraic formula $S = -a + (1-c)Y$,
f. all of the above

_______31. The equilibria of investment and saving is diagrammitically depicted by a 45 degree line that shows investment equal to saving at every point, with the vertical axis representing saving and identical to the vertical axis of the saving-function diagram, and the horizontal axis representing net investment.

_______32. The reason for showing the equality of saving and investment is to
a. ask what would happen if all that were saved at every level of real income were actually invested
b. set the stage for showing why investment cannot in fact be equal to saving when saving is substantial
c. both (a) and (b)

_______33. The marginal efficiency of capital schedule
a. is drawn showing the rate of return on capital on the vertical axis and the volume of net investment on the horizontal axis
b. claims that as the volume of net investment increases, the rate of return on capital decreases
c. both (a) and (b)

_______34. The IS curve is derived on the basis of the proposition that
a. a given volume of employment results in a corresponding volume of output (real national income) on the production function
b. that volume of output (real national income) implies a definite amount of saving, based on the saving function
c. that volume of saving requires an equivalent volume of net investment if hoarding is not to result
d. that volume of net investment implies a definite rate of return on capital according to the marginal efficiency of capital schedule
e. the pairing of the rate of return on capital implied by the marginal efficiency of capital schedule with the volume of output (real national income) that gave rise to it represents a point on the *IS* curve
f. all of the above

_______35. Keynesianism alleges that
a. the “marginal efficiency of capital” is determined by the volume of investment in *physical*

terms, and thus that as wage rates and prices fall, the effect is to reduce the monetary value of the maximum physical amount of investment that is consistent with the minimum acceptable rate of return

b. since total spending is essentially just a multiple of investment spending, the effect of a reduction in wage rates and prices and a proportional reduction in investment spending is a proportional reduction in total spending

c. both (a) and (b)

_______36. According to Keynesianism, there cannot lastingly be a level of employment, output, and real income greater than what produces the limited volume of saving that can be accommodated by the limited volume of profitable investment opportunities.

_______37. According to Keynesianism, full employment is not possible because if it existed, people would attempt to save more than can profitably be invested (i.e., invested at the minimum acceptable rate of return or better).

_______38. According to Keynesianism, the achievement of a rate of return on capital high enough to be minimally acceptable requires the existence of unemployment in order to reduce

a. the level of output/real income

b. the volume of saving, which is allegedly determined by the size of output/real income

c. the need for investment to offset the saving

d. the downward pressure on the rate of return allegedly caused by more investment

e. all of the above

_______39. According to Keynesianism, if there were no additional savings requiring offsetting investment as employment increased, full employment could actually be achieved, because in that case the rate of return on capital would not have to fall as employment increased. Thus, if only people were sufficiently profligate, they could be prosperous, according to Keynesianism.

_______40. The grounds for the MEC doctrine are

a. an alleged rise in the purchase price of capital assets as net investment increases

b. a fall in the selling prices of products as the result of increasing net investment and the additional productive capacity that it brings about, which fall in prices allegedly causes a fall in profit margins and the rate of profit

c. the operation of the law of diminishing returns as net investment increases, accompanied by a further fall in the prospective yields to capital assets

d. all of the above

_______41. "Fiscal policy" is essentially a policy of government budget deficits designed to deal with the alleged excess of saving over profitable investment outlets at the point of full employment.

_______42. Fiscal policy, in the form of chronic government budget deficits, is supposed to be the solution for the unemployment equilibrium, according to Keynesianism, by virtue of providing an additional outlet for saving, alongside the allegedly insufficient outlet provided by profitable investment. With a deficit, employment, output/real income, and saving can allegedly be greater with no additional downward pressure on the marginal efficiency of capital, because the excess saving is siphoned off into financing the deficit.

_______43. An analogy to the Keynesian doctrine of the unemployment equilibrium would be the assumption of an environmental pollution function in place of the saving function and the further assumption of a maximum tolerable amount of pollution. In that case, as employment and output/real income increased, so too would the magnitude of pollution. If full employment generated more pollution than the alleged maximum tolerable amount, then a basis would exist for the allegation of an unemployment equilibrium on environmental grounds.

_______44. An analogy to the Keynesian doctrine of the unemployment equilibrium would be the assumption of an alcholic beverage/narcotic function in place of the saving function and the further assumption of a maximum tolerable limit to the consumption of alchohol/narcotics consistent with people being able to work effectively. In that case, as employment and output/real income increased, so too would the consumption of alchohol/narcotics. If at the point of full employment and its corresponding level of output/real income, the consumption of alchohol/narcotics was so great that people could not work, an unemployment equilibrium could be held to exist for that reason.

_______45. The Keynesian claim that as net investment increases, the purchase price of capital assets rises, thereby reducing the rate of return on capital, drops the context that the question at issue is the effect of a *fall* in wage rates and prices. When wage rates and price fall, the purchase price of capital assets will fall, not rise. The additional net investment is analogous to an additional quantity demanded at lower prices. Just as the additional quantity demanded at lower prices is not a rise in demand and does not raise prices, so too the additional net investment that occurs in response to lower wage rates and prices does not raise the purchase price of capital assets, but is in response to the fall in their prices.

_______46. The Keynesian claim that as net investment increases and thus causes an increase in productive capacity, which in turn leads to a fall in selling prices, drops the context that what initiates the process is a fall in wage rates, which means a fall in costs of production preceding the fall in selling prices. The effect of the fall in costs is to prevent the fall in selling prices from reducing profit margins and the rate of profit.

_______47. The Keynesian claim that as net investment increases, the operation of the law of diminishing returns serves to reduce the yield to successive increments of net investment, drops the context of the increase in employment. When wage rates fall and employment increases, the effect is to increase labor more than capital and thus, if anything, to increase marginal physical returns to capital, not decrease them. If ever capital were too abundant, the employment of more labor would be the cure.

_______48. The Keynesian claim that a fall in wage rates and prices cannot lift the economic system out of a depression and achieve full employment because at full employment the rate of return on capital would be too low, is a claim that the rate of return in the recovery from a depression would be lower than it is in the depression.

_______49. A major reversal of economic reality on the part of the Keynesian analysis is its belief that in a depression saving and net investment are at their maximum possible limits, and the problem is that full employment requires that they be carried still further. The actual fact is, however, that far from being at their maximum limits, saving and net investment are extremely low or even negative in a depression.

_______50. In a depression, net investment is sharply reduced and even becomes negative as the result of the plunge in productive expenditure, including plant and equipment spending and spending on account of inventory, while depreciation and cost of goods sold continue to reflect earlier, higher levels of productive expenditure.

_______51. In a depression, saving is sharply reduced and even becomes negative as the result of

a. the plunge in business profits and the payment of dividends out of earned surplus, which serves to reduce accumulated business savings

b. the existence of mass unemployment and unemployed workers having to consume their savings

c. both (a) and (b)

_______52. Profit is sales receipts minus costs. Net investment is productive expenditure, which is the source of the overwhelming bulk of business's sales receipts, minus those same costs. It follows that in the context of a business cycle, in which productive expenditure and sales reveunes move together virtually dollar for dollar, net investment and profits move together virtually dollar for dollar.

_______53. The marginal-efficiency-of-capital doctrine constitutes a reversal of the actual relationship between net investment and the rate of profit in the context of a business cycle, because more net investment accomanying the return to full employment would result in a virtual dollar-for-dollar increase in the amount of profit in the economic system and thus in a rise in the rate of profit, not a fall.

The following is a four-part question.

Assume that the Keynesian investment multiplier is 4 and that profits are a constant 10 percent of sales revenues (actually they are usually a rising percentage of rising sales revenues).

_______54. Calculate the increase in national income resulting from an increase in net investment of 10.

_______55. Calculate the increase in profit income.

_______56. Calculate the ratio of the additional profit income to the additional net investment.

_______57. Calculate what the rate of profit would have to have been before the increase in net investment in order for it not to be higher now.

_______58. The marginal-efficiency-of-capital doctrine and the multiplier doctrine are mutually contradictory in that the former claims that as net investment increases the rate of return on capital falls, while the latter claims that as net investment increases, national income increases by a multiplied amount, which implies that profits increase at a substantial rate relative to the additional net investment and thus that the rate of profit rises.

_______59. In bringing about a restoration of productive expenditure, particularly for plant and equipment, which had been postponed, awaiting their fall, a fall in wage rates brings about the restoration of net investment and profitability along with full employment.

_______60. If wage rate reductions were accompanied by reduced total wage payments, and the saving of funds were used to buy plant and equipment, aggregate business profits would increase, because while aggregate sales revenues in the economic system remained the same, aggregate business costs would fall because expenditures for plant and equipment typically show up as costs more slowly than do wage payments.

_______61. The paradox-of-thrift doctrine is the claim that the attempt to save a larger proportion of national income results in a smaller amount of national income.

The following is a four-part question.

Assume that 10 is the maximum amount of net investment that can occur at the minimum acceptable rate of return or better.

_______62. If saving is equal to 25 percent of national income, calculate the maximum amount of national income that is consistent with saving not exceeding the allegedly limited profitable investment opportunites.

_______63. If saving is equal to 10 percent of national income, calculate the maximum amount of national income that is consistent with saving not exceeding the allegedly limited profitable investment opportunites.

_______64. If saving is equal to 1 percent of national income, calculate the maximum amount of national income that is consistent with saving not exceeding the allegedly limited profitable investment opportunites.

_______65. The paradox-of-thrift doctrine rests entirely on the central notion of the Keynesian analysis that there is room in the economic system for only a strictly limited amount of profitable investment. If that were so, then the higher the percentage of income saved, the smaller must be the income that results in the maximum amount of saving that the economic system can allegedly tolerate by offsetting it with profitable net investment.

_______66. Saving out of money income continues as a permanent phenomenon only because of the continuing increase in the quantity of money and thus the continuing increase in the level of money incomes. In such conditions more saving is necessary to maintain any given desired ratio of accumulated savings to current income. If the increase in the quantity of money and the consequent rise in money incomes came to an end, it would no longer be necessary to go on saving out of income once accumulated savings reached the desired ratio to current income. Thus there is no such thing as saving being a mathematical function of income.

_______67. The continuing saving and net investment that goes on in the world as the result of an increasing quantity of money, so far from reducing the rate of return on capital, takes place largely out of a rate of return that is elevated by that same increase in the quantity of money and volume of spending.

_______68. "Liquidity preference," or cash preference, as Hazlitt calls it, is

a. people's preference for holding money

b. is the basis, according to the Keynesians, for the minimum acceptable rate of return on capital being 2 percent; 2 percent is the alleged minimum rate of return required to overcome liquidity preference

c. allegedly has no limit when the rate of return falls to its minimum acceptable level

d. all of the above

_______69. The arguments the Keynesians advance for expecting 2 percent to be the minimum rate of return at which people are willing to lend or invest are

a. the costs of bringing borrowers and lenders together

b. the potential for capital losses if interest rates should rise from a level at or below 2 percent

c. both (a) and (b)

_______70. In a free economy, without inflation and credit expansion, the rate of profit and interest would almost certainly be above 2 percent as the result of the combined operation of net consumption and the increase in the quantity of gold.

_______71. If the rate of return on capital somehow did get so low that people attemted to hoard, that very fact would operate to raise the rate of return, because the rate of net consumption applies to cash holdings as well as to investments in capital assets other than cash, with the result that the larger are cash holdings relative to capital assets other than cash, the higher is the amount of net consumption and thus the amount of profit in the economic system relative to the value of capital assets other than cash.

The following is a four-part question, in which the rate of net consumption is assumed to be constant at 2 percent.

_______72. Assume that initially there is 100 of cash in the economic system and 900 of assets other than cash in the form of capital. Calculate the rate of profit on the capital assets other than cash.

_______73. Now assume that there is major increase in cash preference, such that while the quantity of cash remains 100, the monetary value of capital assets other than cash is cut from 900 to 400.

_______74. Assume that there is another, even greater increase in cash preference, such that while the quantity of cash continues to be 100, the monetary value of capital assets other than cash is cut from 400 to 100. Calculate the rate of profit on the capital assets other than cash.

_______75. Calculate the rate of return on capital assets other than cash if cash preference were so powerul that while there continued to be 100 of cash, the monetary value of capital assets other than cash fell to 10.

_______76. If cash preference were so great that people did not productively expend and invest at all, whatever consumption that took place would be profit and the average rate of profit would be that amount of profit divided by zero of invested capital, with the result that the rate of return on capital would be infinite.

_______77. The fact that there are costs of bringing lenders and borrowers together, and of otherwise investing, and that the absolute amount of return must exeed these costs in order for lending and investing to be worthwhile, merely implies that the size of the loan or investment, and the period of time for which it is made, must be of some minimum, not that all lending and borrowing cease to be worthwhile as the rate of return falls below some arbitrary level such as two percent.

_______78. When the pooling of small sums is allowed for, as is accomplished every day by such institutions as savings banks, the sums which it pays to lend and invest even at a rates of return below 2 percent, can be quite small and need be available only for very short periods of time.

_______79. If the rate of return on capital is extremely low and people hesitate to lend or invest for fear that it will rise, then either they are right in expecting the rate of return to rise, or they are wrong. If they are right, then the rate of return rises, and the alleged problem of too low a rate of return simply disappears. If they are wrong, and the rate of return does not rise, then there is no actual reason to fear the rise and they can lend and invest at the low rate of return. Either way, the argument about uncertainty concerning the future of the rate of interest as a permanent basis of large-scale hoarding does not hold up.

_______80. If we consider the phenomenon of a rise in the rate of return on capital as such, rather than merely a rise in the rate of interest on loans, and keep in mind that what brings it about in the circumstances of recovery from a depression—namely, a recovery of productive expenditure and sales revenues—then it becomes clear that people have good reason to go ahead and invest immediately if they expect the rate of return to rise. This is because if they invest as stockholders or other categories of equity owners, they will actually gain from the rise in the rate of return. And if they do not expect the rate of return to rise, then they have no good reason to abstain from investing out of any fear of securities prices falling.

_______81. If the rate of return on capital did fall to an extremely low level, the effect would be

a. a reduction in the volume of lending and borrowing of relatively small sums for relatively short periods of time

b. a reduction in the velocity of circulation of money

c. a counteracting tendency toward a rise in the average rate of return because of the application of net consumption to cash holdings that were now larger relative to capital assets in forms other than cash

d. all of the above

_______82. According to Keynes, the problem of unemployment, rests on the fact that people insist on saving. If they did not save, if they only consumed, the "multiplier" would allegedly be infinite, and full employment would exist.

_______83. In conditions in which there would be no saving whatever, no net saving out of income and no gross saving out of sales revenues, no saving even in the form of cash holdings, because everyone would race to consume immediately,

a. liquidity preference would be zero

b. productive expenditure, costs, and capital would be zero

c. profits would equal sales revenues

d. the rate of profit and interest would be infinite

e. the employment of wage earners in the production of products for sale would be zero

f. all of the above

_______84. In Keynes's view, in the conditions described in the preceding question,

a. the rate of interest, as the price paid for parting with liquidity preference, would be zero

b. employment would be full

c. both (a) and (b)

_______85. The economic consequences of Keynesianism, manifested in the adoption of the implied economic policies have been

a. chronic federal government budget deficits

b. the abandonment of the gold standard and continuous inflation of the supply of paper money

c. growth in the size of government, in the belief that increases in government spending do not require additional taxes and are a source of prosperity

d. the large-scale undermining of saving and capital accumulation as the result of deficits, inflation, and the confiscatory taxation of high incomes

e. the "rust belt"

f. all of the above

_______86. Although Keynesianism is, and must be, radically opposed to the quantity theory of money, for the reasons explained at the beginning of Chapter 18, it nevertheless recognizes the need to couple its policy of budget deficits with an expansion in the quantity of money. This is because even though Keynesianism avows that what increases spending is the mere existence of budget deficits, the fact is that in the absence of substantial increases in the quantity of money, a policy of sustained large-scale budget deficits would inevitably result in the government's bankruptcy.

Chapter 18, Questions 1-86.

Question #	Correct Answer	Question #	Correct Answer	Question #	Correct Answer	Question #	Correct Answer
1	T	26	T	51	c	76	T
2	d	27	T	52	T	77	T
3	T	28	e	53	T	78	T
4	T	29	T	54	40	79	T
5	T	30	f	55	4	80	T
6	T	31	T	56	0.40	81	d
7	T	32	c	57	> or = 40%	82	T
8	T	33	c	58	T	83	f
9	d	34	f	59	T	84	c
10	T	35	c	60	T	85	f
11	e	36	T	61	T	86	T
12	T	37	T	62	40		
13	T	38	e	63	100		
14	T	39	T	64	1000		
15	c	40	d	65	T		
16	T	41	T	66	T		
17	d	42	T	67	T		
18	T	43	T	68	d		
19	c	44	T	69	c		
20	T	45	T	70	T		
21	c	46	T	71	T		
22	T	47	T	72	2.22%		
23	b	48	T	73	2.50%		
24	c	49	T	74	4.00%		
25	T	50	T	75	20.20%		