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

CHAPTER 10. MONOPOLY VERSUS FREEDOM OF COMPETITION

1. Contrast the rational and the anarchic concepts of freedom with respect to what constitutes a violation of freedom.
2. Present the contrasting interpretations of the meaning of "freedom of competition" that arise on the basis of the rational and the anarchic concepts of freedom.
3. Describe the kind of thing that constitutes a violation of the freedom of competition (a) according to anarchic concept of freedom of competition, (b) according to the rational concept of freedom.
4. High capital requirements (a) constitute a violation of the freedom of competition, (b) exist as the result of the freedom of competition, (c) are the result of the fact that other producers in the industry, who are probably using large amounts of capital in their operations, are charging low prices, and their low prices necessitate that to be profitable, one must have low costs of production, which, in turn, are achieved by the employment of large sums of capital, (d) all of the above, (e) none of the above, (g) *b* and *c* but not *a*. Discuss and justify your answer.
5. Explain what is meant by the political concept of monopoly.
6. Describe the relationship of the political concept of monopoly to the rational concept of freedom in general and the rational concept of the freedom of competition in particular.
7. Explain whether monopoly arises from within the economic system or is externally imposed, according to the political concept of monopoly.
8. How does the political concept of monopoly relate to the original meaning of monopoly as an exclusive grant of government privilege?
9. According to the original meaning of monopoly, the British East India Company was a monopoly because (a) it was the only company conducting trade between England and India, (b) it was the only company legally allowed to conduct trade between England and India.
10. List the leading present-day examples of monopoly according to the political concept.
11. Name some examples of exclusive government franchises.
12. Explain why exclusive government franchises constitute monopolies according to the political concept of monopoly.
13. What is essential to the monopoly constituted by exclusive government franchises is the fact that (a) there is only one seller, (b) the market is reserved to the exclusive possession of that seller by means of the initiation of physical force
14. For many years, Alcoa was the only supplier of aluminum ingot in the United States. (a) Explain whether this fact made Alcoa a monopoly according to the political concept of monopoly. (b) Explain what made it possible for Alcoa to be the sole supplier.
15. (a) If the freedom of competition resulted in only one electric or gas company supplying a given area, would that make that company a monopoly according to the political concept of monopoly? Explain. (b) What would such a company have to do to achieve and maintain its position?

16. Are exclusive private franchises, such as McDonalds, monopolies according to the political concept? Explain.
17. Explain how licensing laws create monopolies according the political concept of monopoly.
18. Name some examples of monopolies created by licensing laws.
19. Explain how the fields controlled by licensing laws can be monopolies even though they contain numerous sellers--i.e., identify where the element of exclusivity is and what maintains it.
20. Describe the effects of licensing-law monopoly (a) on the quantity of services received by the buyers, (b) on prices, (c) on the incomes of the sellers, (d) on the incomes of those excluded from the field.
21. Describe the usual justifications that are given of licensing laws.
22. Explain the effect of licensing laws on lower-income consumers insofar as they (the licensing laws) serve to raise the minimum level of service that can be provided.
23. Describe the effects of liberalizing or abolishing medical licensing (a) on the ability of the poor to afford medical care, (b) on the ability of everyone to afford the services of the more highly qualified medical practitioners.
24. Explain how a free market would meet the legitimate objectives of the licensing laws.
25. What fundamental advantage would the absence of licensing offer to individuals that is not possible under licensing? Give examples.
26. "The existence of freedom carries with it the possibility that people will make wrong and even foolish choices. But there is no alternative. That possibility exists *with or without freedom.* The great advantage of freedom is that each individual has the right to make his own choices and need not be bound by the ignorance or stupidity of others." Discuss in relation to medical licensing.
27. In the light of the uniformity-of-profit principle, explain the effect on the cost of hospital stays if licensing requirements and other government regulations in connection with the establishment and operation of hospitals were abolished.
28. Contrast the meaning of "the right to medical care" in the light of the rational and anarchic concepts of freedom.
29. Explain how the present high cost of medical care is the result of the violation of the right to medical care understood in the light of the rational concept of freedom.
30. Explain why protective tariffs constitute monopoly legislation according the political concept of monopoly.
31. Explain how protective tariffs create monopolies even though many thousands of domestic producers may still compete with each other under them--i.e., identify the parties against whom the market is monopolized by protective tariffs.
32. Explain and illustrate how monopoly legislation can protect the less efficient many against the competition of the more efficient few, or even just one.
33. "Monopoly exists, and the freedom of competition is violated, not because there happens to be just one seller in a market, when all have the legal right to enter, but when there are millions in the market, and all *but one* are allowed to enter, with that one otherwise able and willing to enter. For example, a monopoly would exist in the automobile market even if it were comprised of thousands of small automobile companies and everyone in the world were allowed to enter it with the single exception

of the original Henry Ford! Such exclusion of Ford would constitute a monopoly, in violation of the freedom of competition." Discuss.

34. (a) Would such exclusion as described above constitute a monopoly even if Ford's entry were to mean that he would then become the sole seller of automobiles? (b) Explain why, according the political concept of monopoly, Ford's becoming the sole seller would not constitute a monopoly.

35. Explain how minimum-wage and prounion legislation operate to monopolize markets in favor of more-skilled workers and to exclude the less able and the disadvantaged from the market. In your answer, be sure to explain how minimum-wage and prounion legislation (a) prevent less-efficient workers from competing with more efficient workers in terms of labor cost per unit, (b) attract the competition of relatively more skilled workers to the field.

36. Explain how prounion legislation operates against the interests of less skilled workers even insofar as it serves to raise the wages of relatively more-skilled categories of workers.

37. Explain how minimum-wage and prounion legislation create situations in which employers are free to indulge their personal prejudices in deciding which workers to employ.

38. Explain why minimum-wage and prounion legislation have had particularly harmful effects on blacks, especially teenagers, and have often resulted in lifelong unemployment and welfare dependency.

39. (a) Enumerate the laws that serve to increase housing costs. (b) Explain how such laws, coupled with high government-imposed minimum housing standards for health and safety, serve to cause homelessness.

40. Explain how government-imposed minimum housing standards on a local basis have the unintended effect of worsening the housing conditions of the poor elsewhere.

41. Explain why government-owned and government-subsidized enterprises represent monopolies according the political concept of monopoly.

42. Explain how public education represents monopolization of a major part of the education market against the competition of private education.

43. Compare and contrast public education and unregulated private education in terms of their potential to achieve improvements in the quality of education and safeguard against deterioration in the quality of education.

44. "The position of private education today, and that of education as a whole, is analogous to what the position of the automobile industry would be if the production of all the low- and medium-priced models were in the hands of the government, which subsidized their production to the point of giving these models away for nothing--indeed, of compelling every adult to accept one for nothing--while the privately owned portion of the automobile industry were confined to the production of very expensive models, and essentially prohibited from cutting its costs." Discuss.

45. Explain why, according the political concept of monopoly, the antitrust laws constitute promonopoly legislation--i.e., represent the reservation of markets to the exclusive possession of a limited group by means of forcibly excluding potential competitors.

46. Explain why socialism represents the most extreme form of monopoly.

47. Explain and illustrate how the effect of monopoly is often to enable high cost producers to survive, rather than securing exceptionally high profits for anyone.
48. Explain whether patents and copyrights constitute promonopoly legislation and, if not, why not.
49. Describe and explain the long-run effect of the abolition of patents and copyrights on prices.
50. Describe the essential foundation and consequences of monopoly according the political concept.
51. "It follows from the political concept of monopoly, that the program of the announced enemies of monopoly should not be, as it has been for many years, the government's growing control over big business or the breakup of big business. Rather, it should be the progressive elimination of government intervention into the economic system." Discuss.
52. What is meant by monopoly according to the economic concept of monopoly?
53. According to the economic concept of monopoly, (a) where does monopoly originate? (b) what is the government's relationship to monopoly?
54. "According to the economic concept of monopoly, the essential feature of monopoly is the `oneness' of the seller, irrespective of how he has achieved his position." Discuss.
55. Explain how the economic concept of monopoly can be construed in such a way that it embraces hardly anything or almost everything,
56. Describe the extent to which, according to the economic concept, monopoly was held to exist (a) before the 1930s, (b) since the 1930s.
57. Explain the concepts of "oligopoly" and "monopolistic competition" and describe their role in broadening the perception of the prevalence of "monopoly."
58. Describe the extent to which full-bodied competition--viz., "pureandperfect competition" is now held to exist.
59. Name the two essential requirements for the existence of "pureandperfect competition."
60. Explain how the acceptance of the contemporary theory of the comparative extent of monopoly and competition has led to a rewriting of economic history to account for the fact that competition was traditionally considered to be the norm.
61. Explain how the fact that after the Civil War fewer producers remained in many branches of industry was nevertheless accompanied by an increase in the number of producers in actual competition with one another.
62. Describe the doctrine of the tendency toward the formation of a single giant firm controlling the entire economic system.
63. Explain the role of this doctrine in the further doctrine of the alleged inevitability of socialism.
64. Describe how, according to this doctrine, the last day of capitalism is supposed to differ from the first day of socialism.
65. Describe the influence of this doctrine in the beliefs of many antisocialists and in the enactment of the antitrust laws.
66. Explain how the alleged tendency toward the formation of a single giant firm contradicts the essential nature of the gains derived from the division of labor.
67. Explain why the only place that centralized control over all the means of production has been established is under socialism.

68. Explain why a combination of the resort to physical force and a spirit of self-sacrifice on the part of the regime is necessary to the continuation of the state's monopoly of the means of production under socialism.
69. "The experience of socialism confirms the fact that monopoly is a political phenomenon, not an economic phenomenon." Discuss.
70. Explain how the phenomenon of bad mergers confirms the fact that there is no tendency toward the formation of a single giant firm under capitalism.
71. Explain why the formation of conglomerates, containing separate divisions each with its own management, would not be a feasible means of overcoming the conflict between a megacombine and the essential gains from the division of labor.
72. Explain how similar considerations serve to frustrate the combination of firms even within the same industry.
73. Explain how successful mergers serve to provide the basis for the formation of new firms, if not in the industry where a given merger occurs, then in other industries.
74. Describe another, even more important factor that is operative in mergers being accompanied by the continued existence of numerous other firms, and which serves to keep the proportion of the total capital of the economic system in the hands of the merged firms from growing.
75. Describe how taxation and government regulation limit the formation and/or growth of new firms.
76. Describe how the tax laws have encouraged uneconomic mergers.
77. Explain how the absence of the prohibition of insider trading would promote the formation of new firms.
78. Explain the effects of insider trading (a) on buyers, sellers, and holders of a stock when the insider trading represents buying with knowledge of favorable developments; (b) on buyers, sellers, and holders of a stock when the insider trading represents selling with knowledge of unfavorable developments.
79. In both cases be sure to isolate the parties who might have grounds for complaint and appraise the justice of their claims.
80. "If the gains of the insiders, who know what they are doing, must be transferred to those who do not, the latter will not be able to keep those gains for very long. For they will have no basis on which to argue for the retention of their unearned, accidental gains from society as a whole. If knowledge is not an adequate basis for earning a profit that others do not earn, the mere accident of owning the right stock at the right time can hardly be such a basis." Discuss.
81. Describe the kinds of conditions that make for economically sound mergers. In your answer, by sure to explain why conditions for an economically sound merger can exist beyond the achievement of economies of scale.
82. Describe the major postCivil War changes in transportation and transportation costs and how they gave a competitive advantage to large-scale manufacturing over small-scale manufacturing and thereby created the need for widespread mergers.
83. Explain the role of the trusts in effecting the mergers referred to in the preceding question. (In your answer, be sure to also explain the legal considerations that led to the use of trusts in order to achieve mergers.)
84. In broad outline, describe what happened to output and prices, including real prices, in virtually every industry in the United States between 1870 and 1914.

85. Explain what would have happened to output and prices if the trusts had been a promonopoly development, as is usually believed.
86. (a) Describe how the 1911 Supreme Court decision that broke up Standard Oil acknowledged the improvements in quality and price that Standard Oil had achieved for the consumer. (b) Describe the Court's grounds for the breakup nonetheless. (c) Describe the extent to which presumably educated opinion, such as that found in history textbooks, newspaper editorials, and novels and plays, shares the Court's acknowledgement of the achievements of Standard Oil or rests on the belief that the Court based its decision on a diametrically opposite set of facts.
87. Explain what is meant by the predatory pricing doctrine.
88. Describe its influence in the appraisal of the achievements of big business.
89. Describe the conditions in which the attempt to practice predatory pricing would--totally contrary to what the doctrine takes for granted--serve to actually *increase* the price received by the intended target.
90. (a) Describe the condition that must be present in order for a firm practicing predatory pricing to be able to succeed in imposing a lower price on the intended target. (b) Describe the possible costs that achieving this condition can entail for the firm. What critical factor will determine the extent of these costs? How long can they last?
91. Describe the usually unrecognized but nonetheless extremely powerful interests that are created on behalf of the continued existence of the small competitor, if it is the case that as soon as he is driven out the large firm can sharply increase its price, while so long as he remains in business, the price is held below the level of his costs. Could this lead to attempts to subsidize the losses of the small competitor for the purpose of keeping the predator's price low? Discuss.
92. If it is the case that the large, predator firm will slash its price as soon as it is confronted with a small, competing firm, describe how people are placed in a position in which they can use that very knowledge to profit precisely by forming small competing firms against whom the predator will slash price.
93. (a) Explain why that to the extent that the predatory big and rich firm is larger in the same market, it must take the price cut and the resulting loss on a correspondingly larger volume than the small and poor firm. (b) Describe the conditions in which the small firm can be in a better position to withstand its relatively smaller losses than is the large firm. (c) Explain to what extent, if any, matters are fundamentally changed if the large firm has lower unit costs than the small firm--i.e., does this change the principle that its profit reduction is a multiple of the smaller firm's profit reduction to the extent that its volume in the same market is greater?
94. (a) Explain the distinction between operating costs, fixed costs, and total costs. (b) Explain why practicing predatory pricing would necessitate setting one's price below the target's *operating* costs, not his total costs, and then keeping them there for the life of his plant and equipment.
95. If the predator firm does not want to go to the expense implied in answer to the preceding question, what is its alternative?
96. Explain why neither sustaining losses or major profit reductions for years in order to drive out one's small competitors, nor buying out the small competitors at premium prices, can actually pay. (In your answer, be sure to describe the price that one would

need to charge in order to recoup, versus the price that one must accept and could have had without attempting to practice predatory pricing.)

97. "The permanent, long-run price that the large firm can obtain is limited by the costs of production--the full costs--of potential new entrants, together, of course, with an allowance for the competitive rate of profit on their capital. These costs set an objective limit above which the price cannot be maintained in the absence of legal protection from competition--namely, that provided by monopoly according to the political concept. As a result, the large firm cannot in fact later on charge the premium price that is necessary to recoup the profits it must forgo or the additional expense it must incur." Discuss.

98. If the large firm must accept a price that is limited by outsiders' costs, describe the extent of its gains if it should succeed in capturing the business of its small competitors. Is it worth it to the large firm to pursue such limited gains?

99. Explain why it follows from the answer to the preceding question that more than one company in an industry is the normal case.

100. Explain what condition must be present to make it worthwhile for a large, low-cost firm that already does the bulk of an industry's business to cut its price below what is required to enable its smaller rivals to stay in business, if merely gaining their volume is not sufficient.

101. Even if the condition explained in answer to the preceding question is present, what effect would the possession of patent protection on the process or processes that gave the large firm its cost advantage probably have in deciding whether or not to go for 100 percent of the market?

102. Explain why in fact a small firm has a far greater incentive to price aggressively against a large firm, rather than the large firm against the small firm. Try to relate your answer to the case of Compaq versus IBM. Compare and contrast the claims of predatory pricing made against the old Standard Oil Company with the present-day claims of "dumping" that are made against Japan. What is the same and what is different in the claims.

103. Explain why in the nature of the case, Japan's success in exporting cannot be attributed to selling below its costs nor to subsidies on the part of its government.

104. Explain why, despite widespread belief to the contrary, it is not reasonable to attribute Japan's economic success to guidance of its economy by its Ministry of International Trade and Industry.

105. Describe the kind of assumptions that make attribution of economic success to government interference seem plausible.

106. Explain what is meant by the chain-store variant of the predatory pricing doctrine and how it differs from the predatory pricing doctrine as that doctrine has been considered up to now.

107. Explain why the overwhelming bulk of the larger capital of a chain of stores, or other multi-market firm, is *irrelevant* to the size of the losses it might rationally be willing to sustain on a temporary basis in order to become the sole seller in a local market and thereafter forever reap a premium profit in that market. (In your answer, be sure to describe the kind of calculation that would have to be made to arrive a rational limit to such temporary losses.)

108. Explain the implication of your answer to the preceding question for the size of the firms that would be in a position to match even the largest chains in the ability to sustain temporary losses.
109. Explain the effect of losing any part of the capital one had calculated that it was reasonable to lose in an effort to secure a monopoly position in a local market, on one's ability to meet the competition of a newcomer who had made the same calculation but had not yet lost any of his capital.
110. Explain the implications of your answer to the preceding question for the ability of firms to practice such a policy successfully. (Be sure to include in your answer consideration of the need of any firm that practiced such a policy to recoup its losses by thereafter having to charge higher prices than those who had not practiced the policy would have to charge.)
111. Explain how selling under long-term contract can provide the small competitor of a large, would-be practitioner of predatory pricing automatic protection against such practice and can do so even while allowing customers to decide not to actually buy the quantities they have contracted for.
112. How does the kind of arrangement referred to in the preceding question make the predator finance the small firm's costs in order to gain its business?
113. While long-term contract pricing may often not be feasible at the level of retailers' customers, explain what kind of market factors operate to protect small retailers from being dislodged even by permanently lower prices charged by larger firms, and how this contributes to preventing the larger firms from raising their prices.
114. Describe the ways in which the implications of the predatory-pricing doctrine represent an inversion of economic history with respect to (a) the movement of real prices in retailing and elsewhere over the last 130 years or so, i.e., since the days of the general store, whale oil, and the local blacksmith shop; (b) the basis of the growth of the chains and big business in general--i.e., was it greater efficiency and providing better products at lower costs of production, or the ability to succeed at price gouging?
115. Explain what a large firm bent on cutting off vital supplies to a small competitor (which is the doctrine of predation with respect to suppliers) would have to be able to do to succeed in cutting him off; that is, explain how many suppliers the small firm needs, how many the large firm must close off, and how much it has to offer each of them in comparison with what the small firm can presently offer or may be able to offer in the future.
116. Describe any similarity you see between your answer to the preceding question and the relationship of the losses or profit reduction of a large firm attempting to practice predatory pricing against a small firm in the same market.
117. Explain why the prospect of the large firm charging high prices in the event it succeeds in cutting off vital supplies to its small competitors should make suppliers allies of the small competitors.
118. Explain why if there existed only a small number of suppliers that the large firm needed to tie up in order to deny supplies to its smaller rival(s), that would not make matters easier for the large firm.
119. (a) Describe the story of the South Improvement Company and Standard Oil's alleged involvement in it. (b) Present an alternative hypothesis to explain the events of the story, assuming they actually occurred.

120. Explain and illustrate the concept of marginal revenue.
121. On the basis of the concept of marginal revenue, explain the claim that to the degree that a firm is large relative to the size of the market it serves, it is motivated to restrict its production to a quantity of product that is less than what in some sense it "should produce."
122. Explain why, given the elasticity of demand for the product of the industry, the smaller is a given firm relative to the industry as a whole, the more motivated it is alleged to be to expand its production and cut the price of the product.
123. "A large firm can be denounced both for monopolistically restricting supply if it does not produce the extra output that supposedly should be produced, and for being a monopolist if it does produce that extra output." Discuss.
124. Assume that the increment of output that supposedly should be produced is profitable in its own right; that is, is profitable when considered apart from the effect of its production on the price of the quantity that is already being produced. Explain why in such a case, a large firm that must experience the price reduction on its present quantity, does not have the alternative of deciding between a larger industry-wide quantity at a lower price and a smaller industry-wide quantity at a higher price, but only between whether *it* will produce the larger quantity at the lower price or a smaller quantity at the lower price while some other firm produces the additional quantity.
125. "Where competition is physically possible and is peaceful--that is, in which the same or a similar good is capable of being produced by others without violation of anyone's intellectual property rights--and is legally free, the decision of any seller or group of sellers to produce less, or not to produce at all, cannot lastingly establish a selling price that is above the cost of production, plus allowance for the going rate of profit, of potential competitors." Discuss.
126. "The cost of production of potential new entrants constitutes an objective given that limits one's price. One's only choice is to sell either a smaller volume at that cost-limited price or a larger volume at that cost-limited price or a still larger volume at a lower price. But one cannot get a higher price." Discuss.
127. "If one allows for the time that may be required for new firms to enter a field, one can say that irrespective of the elasticity or inelasticity of the demand for the product of an industry as a whole, *the elasticity of the demand for the product of any individual firm*, however large, *is virtually infinite if it charges a price above outsiders' costs plus allowance for the going rate of profit*." Discuss.
128. "Under the freedom of competition the elasticity of demand for the product of any individual company or group of companies at a price above outsiders' costs plus allowance for the going rate of profit, is determined by the sum of the elasticity of demand for the product of the industry as a whole *plus the elasticity of supply of competitors and potential competitors*." Discuss.
129. In the light of your answer to the preceding question, explain how it can be that while the demand curve facing the industry as a whole may be almost perfectly inelastic, or, indeed, actually be perfectly inelastic, as in the case of table salt, the demand curve facing any individual firm in the industry tends to be perfectly elastic at a price above outsiders' costs plus allowance for the going rate of profit.
130. Explain why legal freedom of entry is an essential foundation of competitive price determination and how its absence serves to make it possible for individual firms to set

price on the basis of consideration of the industry's elasticity of demand, above the point of outsiders' costs plus an allowance for the going rate of profit.
131. Compare the role of cost of production and elasticity of demand in determining the prices normally charged for necessities and spare parts. In your answer, be sure to indicate how high prices would be in such cases if they were determined on the basis of a consideration of the industry's elasticity of demand.
132. Describe the role of formal or informal contractual agreements in making cost of production rather than the elasticity of demand the determinant of prices.
133. Explain how contractual agreements tying price to cost of production can contain a major element of variability to make them conform to changes in market conditions.
134. Explain how contractual agreements can serve to make *buyers* the major beneficiaries of any supply reductions and price increases that sellers might otherwise be motivated to bring about.
135. Explain why even if there were just one producer of table salt, it would probably not be possible for him even temporarily to take advantage of the inelasticity of demand for table salt by reducing his production and raising his price.
136. Explain why even though when the excise tax on cigarettes is increased, the price immediately rises and is accompanied by relatively little decline in the quantity of cigarettes demanded, it would not pay an individual tobacco company or combination of all the present tobacco companies taken together to attempt to raise price by the equivalent of an excise tax increase.
137. Describe the role of the potential competition which can take place between producers at different stages of the productive process in limiting price to outsiders' cost of production plus an allowance for the going rate of profit. Illustrate in terms both of the tobacco industry and the oil industry.
138. Compare and contrast the views of Ricardo and Böhm-Bawerk on the role of cost of production versus the (marginal) utility attached to goods by buyers, as the determinant of prices.
139. Explain why in cases in which cost of production rather than considerations of the elasticity of demand determines prices, there is no implication that cost of production can make anything *more valuable* than corresponds to its marginal utility, but only that it can make something *less valuable* than corresponds to its direct marginal utility.
140. Explain Böhm-Bawerk's contention both that it is correct to say that costs govern value and that in such cases marginal utility is what more fundamentally governs value, by virtue of governing the costs.
141. "The notion that cost of production has no significant explanatory role in economics does not come from Böhm-Bawerk and Wieser, but from Jevons." Discuss.
142. Explain in what respect Ricardo was incorrect in conceding that the price of vintage wines was determined by demand and supply rather than by cost of production.
143. "After devoting chapter after chapter to developing a theoretical analysis that is entirely dependent on the concept of marginal revenue, Samuelson and Nordhaus are surprised to find that it is largely irrelevant to the real world and that they have no theory to explain the actual facts of pricing." Discuss.
144. What are the advantages a firm derives from setting its price on the basis of (a) its own cost of production if it can assume that its cost is no higher than its competitors' or

potential competitors' costs? (b) its competitors' or potential competitors' costs of production if its own cost of production is lower than theirs.

145. "Absence of knowledge of the connection between prices and costs, and the belief that the price of each and every product must be determined by the specific demand for and supply of the product--by its own independent marginal utility--is what has led contemporary economics (a) to the expectation that without the presence of a vast number of individually insignificant firms, sellers will be in a position to exploit the product's elasticity of demand, (b) to regard big business per se in a way that should be reserved for one or a few firms operating under monopolistic legal protection against competition, but not when operating under the freedom of competition, (c) in the last analysis, to find that its theory simply does not fit the facts and that it has no applicable theory." Discuss.

146. Explain why the adoption of lower-cost methods of production, even when protected by patents, soon serves to reduce prices somewhere--if not in the industry where introduced, then in another industry or industries.

147. Explain in what ways the prices of other goods serve to limit the price that it is profitable to charge for a good produced under patent or copyright protection.

148. Explain why the prices of patented or copyrighted products are typically set on the basis of cost of production, though with the addition of a substantially greater-than-usual profit margin.

149. Explain why it is generally a sound business policy to reinvest the proceeds of an extremely high profit margin and rate of profit in order to earn a larger amount of profit on the strength of a lower profit margin and rate of profit applied to a greater volume of sales and quantity of capital invested in the production of the good (or more advanced versions of the good).

150. Explain how the ability to practice price discrimination would make it possible to price life-saving patented drugs in a way that did not deprive the marginal buyers of their life's savings.

151. (a) Explain the effect of today's methods of paying for medical care on the elasticity of demand for patented drugs and thus on the price that drug companies find it profitable to charge for them. (b) Explain why it is difficult to practice price discrimination in the sale of patented drugs within the United States today.

152. Explain the potential role of pricing under long-term contract in connection with the feasibility of unregulated private ownership of the various utilities, such as electricity, water, and gas, telephone and sewage services, and the provision of bridges and tunnels.

153. Are privately owned fire-fighting services economically feasible? What would prevent their charging extremely high rates, especially in emergencies?

154. Are privately owned streets economically feasible? How could they be financed?

155. (a) Explain what is meant by eminent domain. (b) Explain the apparent dilemma eminent domain presents in connection with the principle of respect for individual rights. (c) Explain what relatively simple steps would be necessary to eliminate most of the practical substance of this dilemma within a short period of time. (In connection with your answer, be sure to explain the basis of the very different reaction people are likely to have in response to a letter from the government telling them it wants to build a road through their property, and a letter from an oil company saying it would like to drill for oil on their property.)

156. d) Explain how the need for eminent domain could probably be eliminated if, say, 50 or 75 years, were given for the expiration of that power.
157. Explain what is meant by a cartel.
158. Describe the effects that are widely expected to exist if cartels are not prohibited or at least regulated by the government.
159. Explain why, apart from the handful of cases such as diamonds, in which there are very few physical sources of supply, the only time cartels can succeed under capitalism is when they serve merely to reduce the extent of losses, i.e., raise a price from a point of more severe losses to a point of less severe losses or modest profits. (In your answer, be sure to describe the two problems that exist for a profitable cartel, that are likely to lead to its undoing, but which are not present in the case of a cartel that is not particularly profitable.)
160. (a) Explain what limits the prices that the few successful cartels in mining can charge in a free economy. (b) Explain why, in a free economy, such cartels are under continuous pressure to improve their methods of production and lower their costs and the real prices they charge.
161. "What is true of the price charged by a successful cartel is that at any given time it is higher than would be the case if the same known physical quantity of the good were found in widely scattered deposits. The effect of this higher price is to slow down the rate at which the limited known supplies are consumed. Thus, von Mises is correct in describing the higher prices charged by such cartels as tantamount to a form of conservation." Discuss.
162. "Cartels as an economic problem are the result of government intervention, and where they are formed or maintained on this basis, they represent part of the genuine and very serious problem of monopoly." Discuss. In your answer, deal with (a) the case of the Imperial German cartels; (b) the case of present-day American agriculture, (c) the OPEC oil cartel.
163. Explain in what way contemporary economics' doctrine of pure-and-perfect competition represents a trivialization of the economic concept of monopoly.
164. Describe the influence of the doctrine of pure-and-perfect competition on contemporary antitrust policy.
165. Compare and contrast pure-and-perfect competition with competition as it is normally understood, with respect to the subject of business rivalry.
166. Explain what is meant by "the tribal premise."
167. Explain the implications of the tribal premise for "society's" alleged rights in connection with private ownership of the means of production.
168. Describe the circumstances in which "society's" alleged right to 100 percent of every seller's inventory and to the benefit of 100 percent use of his plant and equipment is to be limited.
169. Explain what is meant by the rationing theory of prices.
170. Describe contemporary economics' view of costs.
171. Explain and illustrate what is meant by marginal cost and why contemporary economics considers it the only relevant cost from its perspective.
172. Explain why the concept of marginal cost normally excludes the cost of existing factories and machines.

173. (a) Explain what is meant by scarcity prices. (b) Describe what is meant by "supply" in the context of the pure-and-perfect-competition doctrine. (c) Describe what is meant by "demand" in the context of the pure-and-perfect-competition doctrine. (d) Explain why all prices, according to the collectivist, tribal view that underlies the pure-and-perfect-competition doctrine, should be set at whatever point is required to give the buyers the full supply in the above sense and to limit their demand to the size of the supply.
174. Explain why the pure-and-perfect-competition doctrine regards the equality of price with marginal cost as representing a social optimum.
175. Explain whether the "imperfect competitor"--viz., the "monopolist," the "oligopolist," or the "monopolistic competitor"--sets his price at the point of equality with marginal cost, and, if not, why not.
176. Illustrate the alleged sin of the "imperfect competitor" in terms of (a) the example of the primitive fishing village whose fleet has a superabundant catch, (b) the earning of a royalty or profit by virtue of the use of an idea, (c) the earning of depreciation on existing plant and equipment whose services do not qualify as scarce.
177. Explain why the earning of depreciation charges is held to be improper short of capacity operation of the plant and equipment in question.
178. Explain how the claim that depreciation cost should not be recovered until the services of the plant and equipment in question becomes scarce applies in cases of firms that possess capacity of different grades of efficiency.
179. Describe the similarity between the Ricardian land rent theory and the circumstances in which contemporary economics believes the recovery of fixed costs to be proper.
180. Describe what competition is needed to accomplish, according to contemporary economics, and how, in accordance with that objective, it defines pure-and-perfect competition.
181. Give an example that illustrates the satisfaction of the various requirements of pure-and-perfect competition.
182. Explain why such examples are rarely if ever given.
183. (a) Explain contemporary economics' stress on the need for a large number of individually insignificant sellers as an essential condition of leading profit-seeking businessmen to drive price to equality with marginal cost. (b) Why would such a seller have an inducement to cut his price whenever it was greater than marginal cost, while a significant-sized seller would not? (c) Explain the role of product uniformity in making price cuts appear profitable in such circumstances.
184. Explain the implications of having to set prices equal to marginal costs for the prices charged by airlines and railroads whose planes or trains have empty seats; by movie theaters, baseball stadiums, and opera houses that have empty seats; by toll bridges not confronted with traffic heavy enough to cause jams.
185. How are Samuelson and Nordhaus prepared to deal with cases such as those just mentioned?
186. Explain what the effects would be on the amount of fixed capacity and the ability quickly to meet increases in demand if marginal-cost pricing were applied throughout the economic system.
187. "The standard of `efficiency' used to justify the doctrine of marginal-cost pricing is one according to which the economy of Soviet Russia was more efficient than that of the

United States, because even though there was less of everything in Soviet Russia than in the United States, what there was, was used more fully." Discuss.
188. "Ironically, what the pure-and-perfect-competition doctrine seeks is the abolition of competition among producers and its replacement with a competition among consumers resembling the conditions of the animal kingdom." Discuss.
189. Explain in what way the pure-and-perfect-competition doctrine is to the left of Marxism.
180. In what way do Harberger's findings concerning the meager negative impact of "monopoly" confirm the proposition that the pure-and-perfect-competition doctrine represents a denunciation of big business for refusing to sustain unnecessary losses.
181. Explain why the supporters of the pure-and-perfect-competition doctrine accuse capitalism of lacking price competition. What is their notion of price competition?
182. Explain why in fact, properly understood, price competition is an omnipresent feature of capitalism.
183. Explain how price competition exists even under conditions of inflation.
184. Compare and contrast actual price competition with the view of price competition held by contemporary economics.
185. Explain what it is that leads a competitor to cut his price in the knowledge that others will quickly match his cut.
186. Explain how it can be to the rational self-interest of a large firm to cut its price in response to a fall in demand, even though the industry demand curve is highly inelastic and other firms will quickly match its cut. (Hint: think of the height of its cost of operating presently idle capacity relative to the operating costs of less efficient rivals with active capacity.)
187. Explain how Alfred Marshall's doctrine of the "representative firm" serves to blind contemporary economists to the existence of situations of the kind described in the preceding question.
188. Explain what leads contemporary economics to the conclusion that the only possible gain for a large producer in cutting his price is the same gain that would exist if there were only one producer.
189. "The supporters of the pure-and-perfect-competition doctrine are aware of the fact that their doctrine is inapplicable to reality, but are not troubled by this fact." Discuss.
190. (a) Explain how cost of production operates to set many prices far below what they would be if they were determined on the basis of the direct marginal utility of the good concerned. (b) Explain how cost of production operates to establish prices at a point that is above what they would be if producers did in fact have to regard their plant and equipment and intellectual property as not deserving to command an allowance in the price of the product because their renditions of service were not scarce. (c) Explain how setting prices above what they would be if producers had to regard their plant and equipment and intellectual property as not deserving to command an allowance in the price of the product, serves in the long run to keep prices below what they would otherwise be and to progressively reduce real prices.