

MASTER OF LIBERAL ARTS 60633
The Role of Capital in the Domestic and International Economy
Study Questions for Semester, (Spring 2009)

INSTRUCTIONS: These questions are to help guide your studying. Although these exact questions may not appear on your exam, *the test will be based on the same material*. The length recommendations are rough guesses. **The best guide to how long they need to be is to answer each as if you were explaining to a classmate.** Bracketed comments will not appear on the exam; parenthetical ones will. Throughout, treat Post Keynesian and Keynes as the same.

LECTURE NOTES

Tools and Definitions

1. What is *validity*? [12 words]
2. What is *cogency*? [13 words]
3. Define *physical capital*. [16 words]
4. Define *financial or portfolio capital*. [17 words]
5. Differentiate between capital and investment. [drawing]
6. Define fallacy of composition and give an example. [30 words]
7. Explain Say's Law of Markets (both views). [94 words]

Basic Macroeconomic Theory: The Critical Role of Physical Capital Formation (i.e., investment)

8. According to Keynes, what determines investment? Explain and be sure to define your profit variable in the answer. [67 words]
9. According to Keynes, what determines the expected profit rate? Explain. [70 words]
10. According to Keynes, how can an expansion or recession can result from a self-fulfilling prophecy. [28 words with schematic]
11. Show how Keynes' investment-capital cycle can create a business cycle. [59 words with schematic and diagram]
12. Explain endogenous money (a Post Keynesian theory). [130 words]
13. What are the three means by which the Federal Reserve can change the money supply? [61

words]

14. Draw that big ole Post Keynesian diagram. [diagram]
15. Give the “social” explanation of the basic macroeconomic problem described by Keynes (wherein capitalist societies’ values and their interaction are involved). [90 words]
16. Explain Minsky’s Financial Instability Hypothesis (a Post Keynesian theory). [104 words]

The Stock Market: The Drama of Financial Capital Movements

17. When do firms earn income on the sale of stock or bonds (and who does so otherwise)? [27 words]
18. Draw the stock/bond chart.
19. List and explain the four avenues by which the stock market is linked to the economy. [133 words]
20. Why, logically, if not in fact, must stock prices be linked to national output (e.g., gdp)? [42 words]
21. Explain Rational Choice Theory (a mainstream theory—must include an example!). [42 words]
22. Explain Rational Expectations (a mainstream theory). [32 words]
23. Explain the underlying basis of Heuristic Judgement Theory (a Post Keynesian theory). [10 words]
24. List and explain the three heuristics (a Post Keynesian theory). [106 words]
25. What did Keynes mean by *speculation*? [9 words]
26. What did Keynes mean by *enterprise*? [13 words]
27. Regarding Keynes’ *Fetish of Liquidity*, what was Keynes’ concern? [78 words]
28. What has the major impact of globalization been on the corporations? [62 words]
29. What has the major impact of financialization been on the corporations? [69 words]

30. How did financialization contribute to the jump in gas prices? [121 words]
31. Explain the Milberg theory regarding the interrelationships between globalization and financialization. [33 words plus diagram]

Government Spending and Debt: The Public Sector and Portfolio Capital

32. What accounts for over 80% of the federal government's revenue (2004)? [6 words]
33. For what percent of the federal government's expenditures does defense account (2004)? [number]
34. For what percent of the federal government's expenditures does social security account (2004)? [number]
35. How does the government cover shortfalls in revenue? [6 words]
36. Distinguish between the debt and the deficit. [26 words]
37. What is the logical way of measuring debt burden, where does the US stand, and when do we need to repay the debt? [56 words]
38. What is the impact of repaying the national debt? [78 words]
39. What did the deficits of the 1980's buy us? [6 words]
40. List and explain the four economic fears regarding the national debt. [86 words]

Social Security: Public Sector Savings

41. What is the key issue with respect to Social Security? [76 words]

Capital and Economic Development

42. According to mainstream economics, how will economic development occur? [49 words]
43. What is the Post Keynesian view of developing countries' problem and the best solution? [89 words]
44. According to Post Keynesian economics, in what three ways have most developing and former socialist country policymakers and (foreign) policy consultants viewed portfolio investment inflows as an unambiguous benefit to the recipient economies? [21 words]

45. Under constrained policy autonomy (a Post Keynesian theory), what does the necessity of creating an attractive climate for portfolio investment force host-country governments to do (in general) and how might that be a problem? [50 words]

Das Kapital

46. From what three separate strands did Marxism evolve? [46 words]
47. In what sense did Marx believe that capitalism was exploitative? [46 words]
48. How did Karl Marx argue that capitalism was a necessary stage in the evolution of human history? [69 words]
49. How did Marx predict that capitalism would sow the seeds of its own destruction? In his view, was the sequence of events likely to occur? [115 words]
50. What is the Marxist view of developing countries' problem and the best solution? [51 words]

Inflation

51. Explain demand-pull inflation. [50 words]
52. Explain cost-push inflation. [26 words]
53. According to mainstream economics, what are the costs of inflation? [32 words]
54. According to Post Keynesians, in what way does inflation redistribute income? [40 words]
55. Summarize mainstream inflation policy. [28 words]
56. Summarize Post Keynesian inflation policy. [33 words]

READING

Heilbroner and Milberg Book: For each question, read through the chapter so you can get the full sense of what the authors are saying (in their terribly expensive book!) and then go back and answer the questions. In order to give you some sense of how much detail I am expecting I give in each case the number of words I used in writing my version of the answer.

Exam One

57. Chapter One: "Modern people are wealthy and helpless; ancient people were poor and (more or less) self sufficient." Explain why this statement is true. [113 words]
58. Chapter Two: Describe the role of agriculture, cities, and slaves in ancient societies. [42 words]

59. Chapter Two: In what way do you think feudalism was a reaction to the fall of the Roman empire? [42 words]
60. Chapter Two: Explain the statement from the book, "...the social form taken by the accumulation of wealth (i.e., the "social surplus) reveals a great deal about any society." [32 words]
61. Chapter Two: What were the three prerequisites of change to a market economy? [list and explain each in a sentence or two; 83 words]
62. Chapter Three: Why, philosophically, was the Catholic church against wealth making (and therefore thought it to be sinful)? How did Calvinism's perspective allow for and even encourage wealth making? [78 words]

Exam Two

63. Chapter Three: What role did the enclosures play in creating the market system? Be sure to explain what the enclosure movement was in your answer. [51 words]
64. Chapter Three: If "it is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner," but from their self love, then why is it, according to Adam Smith, that they do not simply take advantage of us in selling us their wares? Explain how this would prevent them from holding us for ransom. [36 words]
65. Chapter Four: What three factors do Heilbroner and Milberg cite as key in having England be the source of the Industrial Revolution? [list and explain; 55 words]
66. Chapter Five: How did the rise of big business affect competition (and then public policy) in the United States? [45 words]
67. Chapter Six: Heilbroner and Milberg generally describe technology to be rising up to the Great Depression. How did this nevertheless contribute to the collapse? [16 words]
68. Chapter Seven: Did the New Deal solve the Great Depression? If the answer is "yes," how? If the answer is "no," why not, and what did end the Depression (and how)? [39 words]
69. Chapter Seven: In what sense did we emerge from the Great Depression with a new stage of capitalism? [35 words]

Final Exam

70. Chapter Nine: In terms of the Golden Age of Capitalism in the US, please explain in terms of the macro diagram from the lecture what led to the boom (do not feel as if you have to include

every factor in chapter nine, but you should be able to come up with at least four). [45 words]

71. Chapter Ten: Read the section on “Explaining the Economic Decline.” See how much of this information you can use to explain the decline using the macro diagram from the lecture. [30 words]
72. Chapter Twelve: What three technological factors have driven globalization? [36 words]
73. Chapter Twelve: What do Heilbroner and Milberg mean by “The Tail Wagging the Dog?” [48 words]
74. Chapter Twelve: How global has globalization been? [34 words]

Clayton and Giesbrecht Book: Because these tend to be much more straightforward than the ones from Heilbroner and Milberg I don’t bother giving a number of words on each one (though I still give some guidance).

Exam One

75. How can economic statistics be abused (there are four varieties of abuse)? [four sentences]
76. What is GDP (the phrase after the hyphen)? [sentence]
77. What does GDP overlook (three things--the fourth one really isn’t overlooked)? [three sentences]
78. Specifically, when is the economy in recession (answer very carefully--NOT the bit about the NBER working it out)? [sentence]

Exam Two

79. Have a look at the figure showing durable and nondurable goods production. Which of the two appears to change more over recessions (the shaded areas) and expansions (the non-shaded areas)? Explain why this is logically so. [couple of sentences]
80. On average, how much warning does the index of leading indicators give us for a recession (in months)? [sentence]
81. When were the three false alarms in the index of leading indicators and how might each be explained? [couple of sentences]
82. How often is the index of leading indicators released and up to how many months of revisions

are included? [sentence]

83. For what is capacity utilization designed? [sentence]
84. Briefly explain why gross private domestic investment expenditures are so important, despite the small role they play in overall spending in the economy. [Hint: find the stuff about Keynes; **two points**--sentence or two]

Final Exam

85. What does it take to be employed (give the definition, not the example)? [sentence]
86. With respect to recessions, when does unemployment start to rise and when does it start to fall? Which movement does it make quickly and which slowly? [sentence or two]
87. What are federal funds? [sentence--don't just say it's the interest paid to borrow fed funds!]
88. What is the discount rate? [sentence]
89. Historically, what is the prime interest rate? [sentence]
90. The S&P 500 works so well as a leading indicator of economic activity that it is included in what prestigious list? [sentence]