

# Business Interventionism Mixed Economy

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# Table of Contents

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## 1. Interventionism Mixed Economy

- Lesson 17: Price Controls
- Lesson 18: Sales and Income Taxes
- Lesson 19: Tariffs and Quotas
- Lesson 21: Inflation
- Lesson 22: Government Debt

## 4. Chapter: Lesson 17: Price Controls

### 1. Lesson 17: Price Controls Questions

#### 4.1.1. What is "mixed" in the term mixed economy?

Author: Robert Murphy

What is "mixed" in the term mixed economy?

- A mixed economy combines features of both capitalism and socialism, namely private ownership and government direction.

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#### 4.1.2. How can the quantity supplied of apartments fall, even in the short...

Author: Robert Murphy

How can the quantity supplied of apartments fall, even in the short run? Isn't there a fixed number of apartment units at any given time?

- Remember that the quantity supplied means the number of apartment units offered for rent. As the legally permissible price falls, more and more owners won't find it worthwhile to go through the hassle and risk of renting their physically available rooms to total strangers.

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### 4.1.3. How might price ceilings on gasoline impede the evacuation of a cit...

Author: Robert Murphy

How might price ceilings on gasoline impede the evacuation of a city in the path of an oncoming hurricane?

- At any given time, gasoline stations in a typical city don't have enough fuel in the underground tanks to withstand a mass exodus of the entire population, with every motorist filling up before leaving town. If the authorities impose price ceilings to prevent "gouging" after the news breaks, the stations will run out of gas before everyone has had a chance to refuel. Consequently some motorists will be stranded on the interstates, impeding traffic flow.

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#### 4.1.4. \*How can minimum wage laws reduce the long-run demand (not just sho...

Author: Robert Murphy

\*How can minimum wage laws reduce the long-run demand (not just short-run quantity demanded) for labor?

- Business owners may respond to a minimum wage law by buying more machines and redesigning their workplaces to operate with a fewer number of higher-skilled employees. Once businesses have adapted in this fashion, the demand curve for labor will have shifted to the left, because even at the original wage level, businesses would now demand a lower quantity.

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#### 4.1.5. How can a minimum wage actually hurt even the workers who stay on t...

Author: Robert Murphy

How can a minimum wage actually hurt even the workers who stay on the job?

- Employers could reduce workplace amenities and other perks to compensate for the higher labor expenses. It is possible that employees would actually prefer the original combination of pay and other benefits to the combination they receive after the imposition of the minimum wage

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#### 4.1.6. Explain how interventionists vie for "the best of both worlds."

Author: Robert Murphy

Explain how interventionists vie for "the best of both worlds."

- The interventionists want to retain a market economy with private property, but have the government selectively "intervene" in order to correct certain features they dislike. Thus, the interventionists claim they are avoiding the excesses of pure capitalism and the horrors of pure socialism.

Sample Partial Credit Answer

The interventionists want a mixed system that is better than capitalism and socialism.

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#### 4.1.7. Why would someone support a price ceiling?

Author: Robert Murphy

Why would someone support a price ceiling?

- Someone might support a price ceiling, thinking that this will help keep certain things affordable. For example, someone might support a price ceiling on apartments or baby food, so that poor people can access shelter and feed their infants.

Sample Partial Credit Answer

To help the poor.

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#### 4.1.8. The textbook claims that price ceilings (a) cause immediate shortag...

Author: Robert Murphy

The textbook claims that price ceilings (a) cause immediate shortages and (b) lower long-run supply. What's the difference?

Use a specific example to illustrate.

- A price ceiling pushes down the price from its equilibrium level, moving along the original supply curve to a lower quantity supplied (and a higher quantity demanded). This is the immediate shortage, for example a million people might try to find apartments but only 800,000 are offered on the market. In the long run, investors don't build as many new apartment buildings because of the price ceiling, so that the whole supply curve of apartments shifts to the left, or at least doesn't shift to the right as much as it otherwise would have.  
Sample Partial Credit Answer  
A price ceiling pushes us along the original supply curve in the short run, and moves the supply curve in the long run.

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#### 4.1.9. Explain why minimum wage laws lead to higher unemployment rates.

Author: Robert Murphy

Explain why minimum wage laws lead to higher unemployment rates.

- Minimum wage laws are set above the market-clearing level, meaning that the quantity of labor supplied by workers is higher than the quantity demanded by employers. This means some workers can't get hired, even though they want to work at prevailing wage rates. This is the typical definition of unemployment.  
Sample Partial Credit Answer  
Minimum wage laws make some workers too expensive to hire.

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#### 4.1.10. Explain how the poorest and most desperate are actually hurt by min...

Author: Robert Murphy

Explain how the poorest and most desperate are actually hurt by minimum wage laws.

- Immigrants and low-skilled workers can only compete by offering to do jobs at lower wages than native and high-skilled workers. Minimum wage laws make it illegal for them to undercut their rivals too much. Minimum wage laws effectively take away the one option that the poor and desperate have, to ensure that they can get a job.  
Sample Partial Credit Answer  
High-skilled workers can get hired above the minimum wage, so it doesn't directly affect their working conditions.

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#### 4.1.11. Explain how minimum wage laws might lead to a decline in workplace ...

Author: Robert Murphy

Explain how minimum wage laws might lead to a decline in workplace quality.

- Employers attract workers through a combination of job features including salary (or wage), health benefits, length of lunch breaks, temperature of the workplace, etc. If minimum wage laws force an employer to offer higher monetary compensation than he otherwise would have, he might cut back on some of the other desirable features of the job to recoup the money.

Sample Partial Credit Answer

The employer might pay the higher wages by cutting back elsewhere, such as air conditioning.

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## 4. Chapter: Lesson 18: Sales and Income Taxes

### 1. Lesson 18: Sales and Income Taxes Questions

#### 4.1.1. \*Does economics conclude that government spending is bad?

Author: Robert Murphy

\*Does economics conclude that government spending is bad?

- No, economics simply points out that resources will be directed to different projects when the government spends money.  
The goods and services produced because of government spending come at the expense of other goods and services that now will never exist. Economics per se can't say that one pattern of output is better or worse than the other, but it reminds us that there is a tradeoff, an opportunity cost to the government's actions.

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#### 4.1.2. How do we know that government spending diverts resources from the ...

Author: Robert Murphy

How do we know that government spending diverts resources from the private sector? Does it matter how the government obtained its funds?

- We know government spending diverts resources, because we can see that actual resources are consumed (or at least devoted to a specific end) when the government spends money. Those resources can't physically be used for private projects (at least in most cases). At this level of analysis, it doesn't matter how the government obtained its funds; its spending necessarily commits resources to particular projects and thereby makes them unavailable for entrepreneurs in the private sector.

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#### 4.1.3. \*\*If the government builds a library, do we know that the private s...

Author: Robert Murphy

\*\*If the government builds a library, do we know that the private sector wouldn't have built a library instead?

- This is a subtle question. Generally speaking, we can say that the government directs resources in different ways from how the private sector would; otherwise, there would be no point to government programs. However, it doesn't follow that entire categories of government services (such as old-age pensions or "free" libraries) exist in a vacuum left by the private sector. If the government didn't build any libraries—and especially if it lowered taxes accordingly by the amount it currently spends on libraries—then charitable groups would probably develop an alternative in the voluntary market sector. The market-produced "free" libraries would probably be much more modest in terms of the physical structures, especially in urban areas with high real estate prices, but it's likely that they would be more useful to their actual customers. At the very least, they would provide more useful services per dollar spent.

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#### 4.1.4. If the government raises a modest amount of money through taxation,...

Author: Robert Murphy

If the government raises a modest amount of money through taxation, do we know that the tax burden is light?

- Not necessarily, as the example of a 200% income tax shows.

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#### 4.1.5. As long as people continue working, does the income tax have little...

Author: Robert Murphy

As long as people continue working, does the income tax have little effect on the economy?

- Not necessarily, as the example of a worker considering a job in New York City shows

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#### 4.1.6. Discuss the difference in economic efficiency between Disney spendi...

Author: Robert Murphy

Discuss the difference in economic efficiency between Disney spending \$10 million to improve Disneyland and the government spending \$10 million to build a bomber.

- Disney is guided by profit and loss. Its executives are only spending the money because they think consumers will value the improvements more than the expense, meaning that resources will be tend to be efficiently used. In contrast, the government has no idea how much extra value the public gets from an additional bomber, and therefore has no guidance on whether it is spending tax dollars wisely.

Sample Partial Credit Answer

The government gets no feedback on its spending.

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#### 4.1.7. Explain why political authorities in an interventionist economy can...

Author: Robert Murphy

Explain why political authorities in an interventionist economy cannot objectively measure how much their citizens benefit from their expenditures.

- Most government services are paid out of general revenues, which are taken involuntarily from the citizens. Then, the services are often provided with a low or zero price. The citizens' desires for resources to go into one area versus another are thus virtually ignored.

Sample Partial Credit Answer

The government doesn't have real competition, so the public has to take whatever it gives them.

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#### 4.1.8. Sometimes the government spends money to build something (e.g., a l...

Author: Robert Murphy

Sometimes the government spends money to build something (e.g., a library) because entrepreneurs won't do it themselves.

Does this prove that the government spending is a good thing?

- No, because we aren't seeing the opportunity cost of the project. The resources going into the library would otherwise have produced different goods and services that the consumers valued more (since the private sector wouldn't have built the library on its own). If the library were a gift from Martians, it would be valuable, but it isn't worth the potential goods and services that now will never be produced.  
Sample Partial Credit Answer  
No, because people in the private sector could've built something else.

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#### 4.1.9. Identify the three typical methods by which governments raise money.

Author: Robert Murphy

Identify the three typical methods by which governments raise money.

- Taxation, borrowing, and inflation.

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#### 4.1.10. Explain why high sales tax rates fuel black market economies.

Author: Robert Murphy

Explain why high sales tax rates fuel black market economies.

- The high sales tax rate gives an incentive for sellers and buyers to keep transactions "off the books" or "under the table."

By hiding sales, the participants don't have to report the transaction and therefore don't pay the tax.

This allows both buyer and seller to walk away with more money than if they had complied with the tax code.

Sample Partial Credit Answer

People hide their transactions to escape the tax.

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#### 4.1.11. Suppose that there are two income tax brackets.

Income up to \$100,0...

Author: Robert Murphy

Suppose that there are two income tax brackets.

Income up to \$100,000 is taxed at 10 percent, while income higher than that is taxed at 20 percent.

Mary originally earns \$99,000, but then gets a raise and now earns \$101,000.

How much total tax does Mary owe the government in each scenario? Has the raise pushed Mary into a higher tax bracket?

If so, is she worse off (assuming she only cares about her takehome salary)?

- Originally Mary pays  $10\% \times \$99,000 = \$9,900$  in tax.  
After her raise, she pays  $(10\% \times \$100,000) + (20\% \times \$1,000) = \$10,000 + \$200 = \$10,200$  in tax.  
Yes, the raise pushed her into the higher tax bracket.  
No, Mary isn't worse off, because originally her take-home salary was  $\$99,000 - \$9,900 = \$89,100$ , but after her raise it's  $\$101,000 - \$10,200 = \$90,800$

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## 4. Chapter: Lesson 19: Tariffs and Quotas

### 1. Lesson 19: Tariffs and Quotas Questions

#### 4.1.1. \*Could every government successfully implement mercantilist policies?

Author: Robert Murphy

\*Could every government successfully implement mercantilist policies?

- No, because it's impossible for every country to run a trade surplus with every other country. In contrast, the argument for free trade can apply to all countries; every government can consistently enrich its own citizens by enacting free trade policies.

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#### 4.1.2. What historical role did Adam Smith play with respect to mercantilism?

Author: Robert Murphy

What historical role did Adam Smith play with respect to mercantilism?

- Adam Smith showed that a country impoverishes itself if it tries to produce at home, what could be purchased abroad more cheaply. Smith's arguments focused on the logic of absolute advantage, where each country was best at producing at least one particular good. In that setting, it naturally made sense for all countries to specialize in those goods in which they had the absolute advantage.

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#### 4.1.3. Explain the meaning (not the cause) of this statement: "The U.S. ra...

Author: Robert Murphy

Explain the meaning (not the cause) of this statement: "The U.S. ran a trade deficit with Japan last year."

- During the course of the previous year, people in the United States spent more money on goods and services produced in Japan, than the people in Japan spent on goods and services produced in the United States.

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#### 4.1.4. Explain: "The economic case for free trade is unilateral."

Author: Robert Murphy

Explain: "The economic case for free trade is unilateral."

- If Country A and B initially have tariff barriers erected against each other, Country A grows richer by lowering its own tariffs even if Country B doesn't reciprocate. In other words, the benefit of a free trade agreement is not simply that lowering your own barriers gives your diplomats leverage when they try to convince other governments into reducing barriers against exports from your own country.

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<http://www.quizover.com/flashcards/explain-the-economic-case-for-free-trade-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-the-economic-case-for-free-trade-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.5. Explain: "A tariff doesn't increase employment, it just rearranges ..."

Author: Robert Murphy

Explain: "A tariff doesn't increase employment, it just rearranges it."

- So long as wages are allowed to adjust, workers can always find employment in the market economy. When a tariff causes employment to expand in a particular sector, therefore, this doesn't "create jobs" on net, but merely sucks workers out of other sectors.

Check the answer of this question online at QuizOver.com:

Question: [Explain A tariff doesn t increase employment by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-a-tariff-doesn-t-increase-employment-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-a-tariff-doesn-t-increase-employment-by-dr-robert-murphy?pdf=1505>

#### 4.1.6. Could every country successfully implement mercantilism? What about...

Author: Robert Murphy

Could every country successfully implement mercantilism? What about free trade?

- No, only a few countries could successfully implement mercantilism, because if some countries run trade surpluses, then others have to run deficits. It's impossible for them all to export more than they import, or (what is the same thing) for them all to accumulate more money at the expense of other countries. In contrast, every country can successfully lower trade barriers and enjoy the advantages of free trade.  
Sample Partial Credit Answer  
If one country wins at mercantilism, it's only because another country loses.

Check the answer of this question online at QuizOver.com:

Question: [Could every country successfully implement by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/could-every-country-successfully-implement-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/could-every-country-successfully-implement-by-dr-robert-murphy?pdf=1505>

#### 4.1.7. Explain how tariffs are taxes on domestic citizens, not foreign com...

Author: Robert Murphy

Explain how tariffs are taxes on domestic citizens, not foreign companies.

- A tariff takes money that citizens want to spend on foreign goods, and diverts some of it to the government. In that sense, a tariff taxes domestic consumers.

Sample Partial Credit Answer

Tariffs hurt the consumers.

Check the answer of this question online at QuizOver.com:

Question: [Explain how tariffs are taxes on domestic by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-tariffs-are-taxes-on-domestic-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-tariffs-are-taxes-on-domestic-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.8. Explain how penalizing U.S. imports simultaneously penalizes U.S. e...

Author: Robert Murphy

Explain how penalizing U.S. imports simultaneously penalizes U.S. exports.

- Ultimately a country pays for its imports with its exports. So if the U.S. government makes it harder for consumers to spend dollars on foreign goods, then foreigners have fewer dollars with which to buy U.S. exports.

Sample Partial Credit Answer

You buy imports with exports.

Check the answer of this question online at QuizOver.com:

Question: [Explain how penalizing U.S. imports simultaneously by Dr. Robert](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-penalizing-u-s-imports-simultaneously-by-dr-robert?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-penalizing-u-s-imports-simultaneously-by-dr-robert?pdf=1505>

## 4. Chapter: Lesson 21: Inflation

### 1. Lesson 21: Inflation Questions

#### 4.1.1. What are the two meanings of the term inflation?

Author: Robert Murphy

What are the two meanings of the term inflation?

- Monetary inflation refers to the increase in the amount of money (and possibly the amount of credit), whereas price inflation refers to a general increase in (most) prices.

Check the answer of this question online at QuizOver.com:

Question: [What are the two meanings of the term inflation by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-are-the-two-meanings-of-the-term-inflation-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-are-the-two-meanings-of-the-term-inflation-by-dr-robert-murphy?pdf=1505>



#### 4.1.2. Is there a strict connection between money growth and price increases?

Author: Robert Murphy

Is there a strict connection between money growth and price increases?

- No. All large-scale price inflations have been preceded by a large-scale monetary inflation, but there is no strict formula connecting the two. Especially over short time spans, the two can even move in opposite directions.

Check the answer of this question online at QuizOver.com:

Question: [Is there a strict connection between money by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/is-there-a-strict-connection-between-money-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/is-there-a-strict-connection-between-money-by-dr-robert-murphy?pdf=1505>

### 4.1.3. Why do workers sell their labor hours in exchange for intrinsically...

Author: Robert Murphy

Why do workers sell their labor hours in exchange for intrinsically useless pieces of fiat money?

- People accept money in their exchanges because they expect other people to do the same in the future. (In other words, money has purchasing power now because people expect it to have purchasing power in the future.) This can be true even for fiat currency.

Check the answer of this question online at QuizOver.com:

Question: [Why do workers sell their labor hours in by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-do-workers-sell-their-labor-hours-in-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-do-workers-sell-their-labor-hours-in-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.4. If the stock of money increases, what happens to the "price of money..."

Author: Robert Murphy

If the stock of money increases, what happens to the "price of money," other things equal? What does this imply for the prices of goods and services?

- As the stock of money increases, the price of money decreases, holding the demand for money constant. But a falling "price of money" translates into rising prices for other goods and services, i.e., price inflation.

Check the answer of this question online at QuizOver.com:

Question: [If the stock of money increases what happens by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-the-stock-of-money-increases-what-happens-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-the-stock-of-money-increases-what-happens-by-dr-robert-murphy?pdf=1505>

#### 4.1.5. What is the harm of government price inflation?

Author: Robert Murphy

What is the harm of government price inflation?

- Price inflation reduces the effectiveness of a medium of exchange. It becomes more difficult for people to make longterm financial decisions when the market value of the currency itself becomes volatile.

Check the answer of this question online at QuizOver.com:

Question: [What is the harm of government price inflation by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-the-harm-of-government-price-inflation-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-the-harm-of-government-price-inflation-by-dr-robert-murphy?pdf=1505>

#### 4.1.6. Explain how the Caesars quite literally debased their currency, and...

Author: Robert Murphy

Explain how the Caesars quite literally debased their currency, and discuss the consequences.

- The Caesars would collect coins containing precious metals (gold and silver), melt them down, add in a "baser" metal to the mix, and then re-coin a larger number, while trying to pass them off as the same coin. Merchants and others adapted by raising their prices (in terms of coins).  
Sample Partial Credit Answer  
They inflated the money supply.

Check the answer of this question online at QuizOver.com:

Question: [Explain how the Caesars quite literally by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-the-caesars-quite-literally-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-the-caesars-quite-literally-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.7. If U.S. paper money is really intrinsically worthless, why do peopl...

Author: Robert Murphy

If U.S. paper money is really intrinsically worthless, why do people work, steal, and kill for it?

- U.S. paper money (currently) has an exchange value; people can use it to obtain other goods and services. Because of this, people are willing to work, steal, etc., to obtain U.S. dollars.

Sample Partial Credit Answer

You can buy things with it.

Check the answer of this question online at QuizOver.com:

Question: [If U.S. paper money is really intrinsically by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-u-s-paper-money-is-really-intrinsically-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-u-s-paper-money-is-really-intrinsically-by-dr-robert-murphy?pdf=1505>

#### 4.1.8. Does fiat money have whatever value the government assigns to it?

Author: Robert Murphy

Does fiat money have whatever value the government assigns to it?

- No. The value or "price" of money is set by supply and demand.  
The government can use various measures to influence the supply and demand for money, but the government's control isn't absolute.  
Sample Partial Credit Answer  
No because the government can't stop inflation.

Check the answer of this question online at QuizOver.com:

Question: [Does fiat money have whatever value the by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/does-fiat-money-have-whatever-value-the-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/does-fiat-money-have-whatever-value-the-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.9. How does a gold standard place a limit on inflation?

Author: Robert Murphy

How does a gold standard place a limit on inflation?

- Under a genuine gold standard, the government must redeem currency for gold at a fixed conversion rate. If the government is reckless and prints too much paper money, it runs the risk of running out of gold reserves. So a government on a gold standard must exercise restraint in how much currency it creates.  
Sample Partial Credit Answer  
Governments can't print gold.

Check the answer of this question online at QuizOver.com:

Question: [How does a gold standard place a limit on by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/how-does-a-gold-standard-place-a-limit-on-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-does-a-gold-standard-place-a-limit-on-by-dr-robert-murphy-mises?pdf=1505>



#### 4.1.10. When prices of most goods and services, measured in dollars, go up,...

Author: Robert Murphy

When prices of most goods and services, measured in dollars, go up, what is happening to the market value of the dollar? Explain.

- The market value of the dollar is dropping, because you need more dollars to buy the same amount of goods and services.  
Sample Partial Credit Answer  
Dropping.

Check the answer of this question online at QuizOver.com:

Question: [When prices of most goods and services measured by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/when-prices-of-most-goods-and-services-measured-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/when-prices-of-most-goods-and-services-measured-by-dr-robert-murphy?pdf=1505>

#### 4.1.11. Explain how large and variable price inflation partially defeats th...

Author: Robert Murphy

Explain how large and variable price inflation partially defeats the purpose of using money in the first place.

- People use money to coordinate complicated exchanges involving multiple people, and they also use it to reduce items to a common denominator. If people aren't confident about the purchasing power of money in the future, they won't be able to plan as well. Because people will try to hold more of their wealth in the form of "real" goods, society will effectively move in the direction of barter.  
Sample Partial Credit Answer  
Money isn't as valuable if people don't know how much it will be able to buy.

Check the answer of this question online at QuizOver.com:

Question: [Explain how large and variable price inflation by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-large-and-variable-price-inflation-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-large-and-variable-price-inflation-by-dr-robert-murphy?pdf=1505>

## 4. Chapter: Lesson 22: Government Debt

### 1. Lesson 22: Government Debt Questions

#### 4.1.1. \*Explain: "The government deficit is a flow variable, while the deb...

Author: Robert Murphy

\*Explain: "The government deficit is a flow variable, while the debt is a stock variable."

- It only makes sense to measure the deficit in reference to a certain duration of time. For example, we can talk about the deficit during fiscal year 2010, or during the first three months of calendar year 2009. In contrast, the debt is a measure that applies at a particular moment in time. For example, we can talk about the debt as of December 31, 2009. (To understand the flow/variable distinction, an example of water might help. If someone is using a hose to fill a backyard pool, the rate at which the water shoots out of the hose—say, 5 gallons per minute—is a flow variable. On the other hand, the depth of the water in the pool—say, 3 feet—at any given time is a stock variable.)

Check the answer of this question online at QuizOver.com:

Question: [Explain The government deficit is a flow by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-the-government-deficit-is-a-flow-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-the-government-deficit-is-a-flow-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.2. When the government spends more than it collects in tax revenues, w...

Author: Robert Murphy

When the government spends more than it collects in tax revenues, what can we say about the budget?

- The budget is in deficit.

Check the answer of this question online at QuizOver.com:

Question: [When the government spends more than it by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/when-the-government-spends-more-than-it-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/when-the-government-spends-more-than-it-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.3. \*Is it possible for the government to sell new bonds in a given yea...

Author: Robert Murphy

\*Is it possible for the government to sell new bonds in a given year, even if the budget is in surplus?

- Yes. If the government carries forward an existing debt that is larger than the surplus, then the government ends the period with a debt (though a lower one). If some of the carried debt had to be "rolled over" into new bonds, then the government would have issued new bonds to replace the maturing ones (which were not being paid off with the surplus). For example, in the student text's table, in the year 2012 the government runs a \$25 billion surplus, but also (re)issues \$75 billion worth of new bonds.

Check the answer of this question online at QuizOver.com:

Question: [Is it possible for the government to sell by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/is-it-possible-for-the-government-to-sell-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/is-it-possible-for-the-government-to-sell-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.4. Are government budget deficits directly inflationary?

Author: Robert Murphy

Are government budget deficits directly inflationary?

- No, because by itself a budget deficit doesn't create new money.

Check the answer of this question online at QuizOver.com:

Question: [Are government budget deficits directly by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/are-government-budget-deficits-directly-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/are-government-budget-deficits-directly-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.5. \*Does it help future generations by raising taxes now to close a bu...

Author: Robert Murphy

\*Does it help future generations by raising taxes now to close a budget deficit?

- No, because the actual mechanisms through which government budget deficits impoverish future generations—lower capital formation, distortions to the future economy when taxes are raised, etc.—are applicable to present tax hikes.

Check the answer of this question online at QuizOver.com:

Question: [Does it help future generations by raising Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/does-it-help-future-generations-by-raising-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/does-it-help-future-generations-by-raising-dr-robert-murphy-mises?pdf=1505>



#### 4.1.6. Could a government run a budget surplus while still having a large ...

Author: Robert Murphy

Could a government run a budget surplus while still having a large debt? Explain.

- Yes, because a budget surplus just refers to the government spending less than it collects in taxes, for a given time period (such as a year). The government could do this, while still carrying a large debt that it accumulated from years and years of past deficits.  
Sample Partial Credit Answer  
Yes.

Check the answer of this question online at QuizOver.com:

Question: [Could a government run a budget surplus by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/could-a-government-run-a-budget-surplus-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/could-a-government-run-a-budget-surplus-by-dr-robert-murphy-mises?pdf=1505>

#### 4.1.7. If the government retires some of its outstanding bonds during the ...

Author: Robert Murphy

If the government retires some of its outstanding bonds during the year, does that mean it's necessarily running a budget surplus? Explain.

- No, because in any given year, some portion of the outstanding bonds will probably mature, meaning the government will have to return the principal to those lenders. Yet the government can re-enter the bond market and borrow that same principal back again, keeping the outstanding debt at the same level (looking at just these transactions). This process can occur regardless of whether the government happens to be also running a deficit or surplus that year.  
Sample Partial Credit Answer  
No, it could be running a deficit and still have to pay off some of the existing bondholders.

Check the answer of this question online at QuizOver.com:

Question: [If the government retires some of its outstanding by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-the-government-retires-some-of-its-outstanding-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-the-government-retires-some-of-its-outstanding-by-dr-robert-murphy?pdf=1505>

#### 4.1.8. Explain the accurate sense in which government deficits today make ...

Author: Robert Murphy

Explain the accurate sense in which government deficits today make our grandchildren poorer.

- Deficits today are financed by borrowing money, which drives up interest rates and diverts savings out of the private sector. Other things equal, this reduces the amount of private sector investment, meaning that our grandchildren end up inheriting a smaller collection of machines, tools, and equipment. This reduction in capital goods makes their labor less productive and lowers their standard of living (relative to what they otherwise would have achieved).  
Sample Partial Credit Answer  
Government deficits reduce private investment.

Check the answer of this question online at QuizOver.com:

Question: [Explain the accurate sense in which government by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-the-accurate-sense-in-which-government-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-the-accurate-sense-in-which-government-by-dr-robert-murphy?pdf=1505>