

Business Capitalism Market Economy

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Table of Contents

Quiz Permalink: <http://www.quizover.com/question/capitalism-the-market-economy-by-dr-robert-murphy-mises>

Author Profile: <http://www.quizover.com/user/profile/robert.murphy>

1. Capitalism Market Economy

- Lesson 05: The Institution of Private Property
- Lesson 06: Direct Exchange and Barter Prices
- Lesson 07: Indirect Exchange and the Appearance of Money
- Lesson 08: The Division of Labor and Specialization
- Lesson 09: Entrepreneurship and Competition
- Lesson 10: Income, Saving , and Investment
- Lesson 11 Supply and Demand
- Lesson 12: Interest, Credit, and Debt
- Lesson 13: Profit and Loss Accounting
- Lesson 14: The Stock Market

4. Chapter: Lesson 05: The Institution of Private Property

1. Lesson 05: The Institution of Private Property Questions

4.1.1. Did Crusoe need an institution of private property?

Author: Robert Murphy

Did Crusoe need an institution of private property?

- No, the only conflict Crusoe had was with Nature.
If he wanted more coconuts to eat, he simply had to decide whether the benefits outweighed the additional sacrifice of leisure.
There were no other intelligences who may have had their own designs on the scarce goods.

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Interactive Question:

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4.1.2. Why does economic scarcity lead to potential conflict in society?

Author: Robert Murphy

Why does economic scarcity lead to potential conflict in society?

- Scarcity means that there aren't enough units of a good (or service) to satisfy everyone's potential uses for it. In society, people often have incompatible aims for the same unit of a good. (If Jim eats a piece of pizza, Sally can't eat the same piece.)

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4.1.3. What are the three main institutional settings we will study in thi...

Author: Robert Murphy

What are the three main institutional settings we will study in this course?

- Pure capitalism, pure socialism, and the mixed economy (as defined in the student text and also above).

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Question: [What are the three main institutional settings by Dr. Robert Murphy](#)

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Interactive Question:

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4.1.4. Is the sketch of a pure market economy a realistic depiction of the...

Author: Robert Murphy

Is the sketch of a pure market economy a realistic depiction of the United States?

- Not at all! Historically, the United States was the closest to a large, pure capitalist economy the world has ever known, but the U.S. federal government has grown steadily since its birth. Even though many people consider the United States in the early 21st century to be an illustration of the operation of capitalism, in our terminology it is most definitely a mixed economy.

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

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4.1.5. What does it mean when an economist says, "We should let the market..."

Author: Robert Murphy

What does it mean when an economist says, "We should let the market decide"?

- Such a statement means that the government should not interfere with the outcome of voluntary interactions among private property owners. It's important for students to realize that letting "the market" decide something isn't ceding decisionmaking authority away from concerned individuals and into the hands of a lifeless concept. On the contrary, "the market" in this context refers to the decisions made by certain individuals in the private sector, and any government involvement would simply substitute the desires of government officials for the people in the private sector. Decisions are always made by individuals.

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4.1.6. Explain why the boundaries imposed by property ownership are absolu...

Author: Robert Murphy

Explain why the boundaries imposed by property ownership are absolutely essential to a capitalist system.

- Capitalism gives people the freedom to start any business or to work for any employer that they desire. Consumers are also free to buy or not buy whatever products and services they desire. The only way this system can work is if there are strict boundaries on who owns what, so that it is clear which person has the right to use or trade away a particular good.

Sample Partial Credit Answer

If people didn't get to keep the fruits of their labor, they would have no reason to work hard.

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

Question: [Explain why the boundaries imposed by property Dr. Robert Murphy](#)

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4.1.7. Explain how property rights minimize conflicts.

Author: Robert Murphy

Explain how property rights minimize conflicts.

- Resources are scarce, meaning that there aren't enough to satisfy everyone's desires for using those resources. This situation leads to conflict, because if one person uses a good to satisfy his goals, someone else won't be able to. Property rights provide an orderly way to determine which person gets to decide how a good will be used, and how that ownership can be transferred to a different person.

Sample Partial Credit Answer

Without property rights, people would always fight over resources.

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

Question: [Explain how property rights minimize conflicts by Dr. Robert Murphy](#)

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4. Chapter: Lesson 06: Direct Exchange and Barter Prices

1. Lesson 06: Direct Exchange and Barter Prices Questions

4.1.1. How is it possible for both parties to benefit from the same exchange?

Author: Robert Murphy

How is it possible for both parties to benefit from the same exchange?

- Economic value is subjective.

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4.1.2. If a producer good only provides benefits indirectly, can a produce...

Author: Robert Murphy

If a producer good only provides benefits indirectly, can a producer good be obtained via direct exchange?

- Yes. The text discusses the example of a farmer trading away bacon for tomato seeds, which are presumably a producer good (intended for planting to yield tomatoes). So long as both farmers intend on using the obtained goods themselves (rather than trading them away yet again), the exchange is a direct one. (The distinction between direct and indirect exchange will be much clearer after you work through Lesson 7.)

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4.1.3. Suppose the economy has only four goods: apples, oranges, bananas, ...

Author: Robert Murphy

Suppose the economy has only four goods: apples, oranges, bananas, and grapes.

In barter, how many independent price ratios would exist? (E.g., the apple:orange ratio would not be independent of the orange:apple ratio.)

- There are $4 \times 3 = 12$ different pairs of goods, but only 6 if the order is unimportant. So in a barter economy with four goods, traders would need to keep track of 6 different price ratios. Specifically, they are: apples:oranges, apples:bananas, apples:grapes, oranges:bananas, oranges:grapes, and bananas:grapes. (If you know that 1 apple trades for 2 bananas, then you automatically know that 1 banana trades for half an apple. That's why you only need to keep track of 6 total exchange ratios in this small economy.)

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

Question: [Suppose the economy has only four goods by Dr. Robert Murphy @Mises](#)

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4.1.4. If Alice likes Snickers more than Milky Ways, does that mean she wo...

Author: Robert Murphy

If Alice likes Snickers more than Milky Ways, does that mean she would always choose a Snickers over a Milky Way, if offered a choice between one or the other?

- No, because she might start out with more Snickers than Milky Ways. For example, if Alice starts out with (2 Snickers and 0 Milky Ways), she would rather obtain one additional Milky Way than one additional Snickers. The former gift would raise her to the 14th spot on her preference ranking, whereas the latter would raise her only to the 19th. (She would start at the 21st spot.) Note that in a sense, it's inaccurate to say "Alice likes Snickers more than Milky Ways" for this very reason, but of course in everyday language we speak like this all the time.

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

Question: [If Alice likes Snickers more than Milky by Dr. Robert Murphy @Mises](#)

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4.1.5. In what sense did Christy's arrival "knock out" some of the possibil...

Author: Robert Murphy

In what sense did Christy's arrival "knock out" some of the possible equilibrium prices that could have formed between Alice and Billy?

- All we mean is that Christy would be willing to make counteroffers to prevent some of the original equilibrium trading outcomes from occurring. Intuitively, Alice wouldn't sell Snickers at such low prices to Billy once Christy enters the scene with her stockpile of Milky Ways and her tendency to prefer Snickers.

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

Question: [In what sense did Christy's arrival knock by Dr. Robert Murphy @Mises](#)

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4.1.6. Explain how, at the moment of exchange, both parties in a voluntary...

Author: Robert Murphy

Explain how, at the moment of exchange, both parties in a voluntary trade expect to benefit from it.

- If a trade is voluntary, it means that both parties agree to it, that neither is being forced into making the trade. Therefore, it must be the case that each party expects to benefit from it in some sense.

Sample Partial Credit Answer

People are usually pretty good at knowing what they like.

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Question: [Explain how at the moment of exchange both by Dr. Robert Murphy](#)

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4.1.7. Suppose a farmer trades the metalsmith 10 pigs to obtain an axe tha...

Author: Robert Murphy

Suppose a farmer trades the metalsmith 10 pigs to obtain an axe that the farmer will use to chop down trees. The metalsmith intends to keep the pigs and eventually eat them. Is this a direct or indirect exchange?

Explain your answer.

- A direct exchange occurs when both parties intend to personally use the item received, either for consumption or production. Since the farmer wants to use the axe to cut down trees, and the metalsmith wants to eat the pigs, this qualifies as a direct exchange.

Sample Partial Credit Answer

This is a direct exchange because the metalsmith eats the pigs, rather than selling the bacon to others.

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Question: [Suppose a farmer trades the metalsmith by Dr. Robert Murphy @Mises](#)

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4.1.8. How does subjective value make "gains from trade" possible?

Author: Robert Murphy

How does subjective value make "gains from trade" possible?

- "Gains from trade" mean that both parties are better off after making a trade. This is possible because the value each person places on the goods being traded is subjective. For example, Jim can value Mary's bologna sandwich more than his peanut butter sandwich, while Mary can have the opposite preference, meaning that both can walk away from the trade with a good possessing higher value.

Sample Partial Credit Answer

People will only make a trade if they expect to benefit from it.

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Question: [How does subjective value make gains from by Dr. Robert Murphy @Mises](#)

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4.1.9. In the Halloween candy example, what did we mean by an "equilibrium..."

Author: Robert Murphy

In the Halloween candy example, what did we mean by an "equilibrium position" or "equilibrium price"?

Was the textbook saying that such an outcome had to occur?

- An equilibrium occurred when there were no more gains from trade available, and where nobody could make a better offer to prevent the actual trades from occurring.
This outcome was "stable" because if the kids began going down this path, there would be no reason for the kids to stray from it.
The textbook was not saying that real-world children would necessarily trade their candy according to such an equilibrium, because (for example) the kids might make mistakes in their negotiation strategies, and end up having someone "call their bluff."
Sample Partial Credit Answer
An equilibrium occurred after all the trades were made.

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Question: [In the Halloween candy example what did by Dr. Robert Murphy @Mises](#)

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4.1.10. Do people need money in order for market prices to form? Explain.

Author: Robert Murphy

Do people need money in order for market prices to form? Explain.

- No, market prices are simply exchange ratios in trades between different goods. Money is very useful to facilitate trades, but it is not necessary. The Halloween candy example doesn't use money, but it shows how prices form.
Sample Partial Credit Answer
No, there is barter.

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Question: [Do people need money in order for market by Dr. Robert Murphy @Mises](#)

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4. Chapter: Lesson 07: Indirect Exchange and the Appearance of Money

1. Lesson 07: Indirect Exchange and the Appearance of Money Questions

4.1.1. What's the difference between direct and indirect exchange?

Author: Robert Murphy

What's the difference between direct and indirect exchange?

- In direct exchange, both parties plan on using (either for consumption or production) the item they obtain through the trade. In indirect exchange, at least one of the parties plans on trading away the item obtained through the trade.

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

Question: [What s the difference between direct and by Dr. Robert Murphy @Mises](#)

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4.1.2. Why would specialization be impractical in a world limited to direc...

Author: Robert Murphy

Why would specialization be impractical in a world limited to direct exchange?

- A world limited to direct exchange would require a "double coincidence of wants" before a trade could occur. It would be impractical for someone to specialize in the production of services or goods that were of high value but rarely needed, such as (say) a heart surgeon or an orthodontist. In order to obtain enough food, clothing, and other goods for a comfortable living, the orthodontist would need to find—every week!— someone with meat, bread, etc., who needed work done on his braces, etc. In such a world, people would have to always be ready to fall back on their own production for necessities, and couldn't spend time becoming a true expert in a specialty. Note also that the orthodontist wouldn't be able to accept, say, 100 chickens from a farmer in exchange for a lot of dental work, because if the orthodontist then used some of the chickens to obtain other items, it would no longer be direct exchange.

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Question: [Why would specialization be impractical by Dr. Robert Murphy @Mises](#)

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4.1.3. How does indirect exchange facilitate the strategy of "one step bac...

Author: Robert Murphy

How does indirect exchange facilitate the strategy of "one step back, two steps forward"?

- With the possibility of indirect exchange, an individual can "sell" her wares and receive something she doesn't directly desire, and in this sense has taken a step back in the goals she can satisfy with her possessions. But if she can then trade away the medium of exchange to obtain something she likes even better than the original possession, she has taken two steps forward.

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

Question: [How does indirect exchange facilitate the by Dr. Robert Murphy @Mises](#)

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4.1.4. What are the disadvantages of indirect exchange without money?

Author: Robert Murphy

What are the disadvantages of indirect exchange without money?

- Without money, various goods all trade against each other directly. This makes it very difficult for someone to determine the "best deal" when he wants to unload a particular good and buy something else. He can quickly spot one way of doing so, but it's a very complicated problem to figure out if there is a more lucrative way. (One of the Suggested Activities elaborates on this idea.)

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Question: [What are the disadvantages of indirect exchange by Dr. Robert Murphy](#)

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4.1.5. Describe a society in which the people practice indirect exchange, ...

Author: Robert Murphy

Describe a society in which the people practice indirect exchange, but have not yet developed money.

- If there is indirect exchange, it means that at least some people in the society accept goods that they don't directly want (for production or consumption). So there are media of exchange. However, if money has not yet developed, it means that there is no one medium of exchange that everyone is willing to accept. In other words, some members of the community accept Medium of Exchange #1, while some others accept Medium of Exchange #2, and so forth. In a monetary economy, (virtually) everyone accepts the same medium of exchange.

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Question: [Describe a society in which the people practice by Dr. Robert Murphy](#)

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4.1.6. Explain the advantages and limitations of direct exchange.

Author: Robert Murphy

Explain the advantages and limitations of direct exchange.

- The advantage of direct exchange is that it allows people to make mutually beneficial trades, so that each person winds up better off. The limitation is that a person looking to make a trade needs to find someone else who desires what the first person is offering, and who also has what the first person wants. This requirement prevents many beneficial trades that involve more than two people.

Sample Partial Credit Answer

The problem with direct exchange is that a dentist who is hungry has to find a farmer who has a toothache.

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4.1.7. Explain how a community could use indirect exchange but not have money.

Author: Robert Murphy

Explain how a community could use indirect exchange but not have money.

- So long as some people in the community accept items in trade that they intend to trade away in the future, then the community uses indirect exchange. However, if it so happens that no single commodity is accepted as a medium of exchange by everybody in the community, then there wouldn't be a money. In other words, even though lots of people might accept objects intending to trade them away again, the people use different objects in this way.

Sample Partial Credit Answer

When someone visits another country, his money isn't accepted and he doesn't think what they use is "money" either. But the people in that country aren't using barter.

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4.1.8. Explain what economist Friedrich Hayek meant when he used the term ...

Author: Robert Murphy

Explain what economist Friedrich Hayek meant when he used the

term "spontaneous order" in reference to the origin of money.

- Hayek meant that nobody planned the creation of money; it just happened naturally as the outgrowth of individuals trying to better themselves. Even so, money is a very useful institution that allows modern economies to work.

Sample Partial Credit Answer

Hayek meant that nobody invented money

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<http://www.quizover.com/flashcards/explain-what-economist-friedrich-hayek-meant-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-what-economist-friedrich-hayek-meant-by-dr-robert-murphy?pdf=1505>

4. Chapter: Lesson 08: The Division of Labor and Specialization

1. Lesson 08: The Division of Labor and Specialization Questions

4.1.1. What's the connection between specialization and the productivity o...

Author: Robert Murphy

What's the connection between specialization and the productivity of labor?

- Specialization greatly increases the productivity of labor

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

Question: [What s the connection between specialization by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-s-the-connection-between-specialization-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-s-the-connection-between-specialization-by-dr-robert-murphy?pdf=1505>

4.1.2. If the world were filled with identical people, would specializatio...

Author: Robert Murphy

If the world were filled with identical people, would specialization still be useful?

- Yes, because (among other reasons) people would still have access to different climates and raw materials, and also because initially identical people will develop different skills over time if they specialize in different occupations.

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

Question: [If the world were filled with identical by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/if-the-world-were-filled-with-identical-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-the-world-were-filled-with-identical-by-dr-robert-murphy-mises?pdf=1505>

4.1.3. Why is trade important for the division of labor?

Author: Robert Murphy

Why is trade important for the division of labor?

- The division of labor only works when people produce more than what they personally will use, and then trade their excess or surplus with others.
It does no good to produce ten times as many oranges and steaks, if the farmer has to eat only oranges and the butcher can only eat steak.

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

Question: [Why is trade important for the division by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-is-trade-important-for-the-division-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-is-trade-important-for-the-division-by-dr-robert-murphy-mises?pdf=1505>

4.1.4. Explain this statement: "The gains from trade in a case of absolute..."

Author: Robert Murphy

Explain this statement: "The gains from trade in a case of absolute advantage are obvious, but they can be quite subtle in a case of comparative advantage."

- If Joe is an expert lawyer while Sally is an expert dentist, it is perfectly obvious that they benefit from Joe trading legal services in exchange for Sally's dental work.
But in the text's hypothetical case of Marcia the storekeeper and John the hired help, it's not clear at first why Marcia benefits from hiring someone to do a job she could more quickly herself.

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

Question: [Explain this statement The gains from trade by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-this-statement-the-gains-from-trade-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-this-statement-the-gains-from-trade-by-dr-robert-murphy?pdf=1505>

4.1.5. Why is Marcia the storekeeper willing to pay up to \$40 to have some...

Author: Robert Murphy

Why is Marcia the storekeeper willing to pay up to \$40 to have someone clean her store at the end of the day?

- If Marcia has to clean the store herself, she sacrifices 30 minutes that she could have spent pushing sales. Because it takes her an average of 15 minutes to close a sale, that means Marcia loses out on 2 typical sales if she doesn't hire someone to clean for her.
Because the text assumes Marcia nets an average of \$20 per sale, her 30 minutes is worth \$40 to her, and that is the most she would be willing to pay someone else to do her cleaning.

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

Question: [Why is Marcia the storekeeper willing to by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-is-marcia-the-storekeeper-willing-to-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-is-marcia-the-storekeeper-willing-to-by-dr-robert-murphy-mises?pdf=1505>

4.1.6. What is the difference between absolute advantage and comparative a...

Author: Robert Murphy

What is the difference between absolute advantage and comparative advantage?

- Absolute advantage means that a person (or country) is better at doing something than another person (or country).

For example, one person might be able to make 10 pizzas per hour, while someone else can only make 8. Comparative advantage means that it is efficient for a person (or country) to concentrate in a particular task—whether or not there is an absolute advantage in it—because this outlet offers the best tradeoff with other potential tasks.

Sample Partial Credit Answer

Comparative advantage is when people do the thing they're good at.

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

Question: [What is the difference between absolute by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-the-difference-between-absolute-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-the-difference-between-absolute-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Give an example—not from the textbook—involving two people and two ...

Author: Robert Murphy

Give an example—not from the textbook—involving two people and two lines of production, where one party has the absolute advantage in both lines, but it still obviously makes sense for each to focus on his or her comparative advantage.

- The pattern here will be finding something "obvious" where one person is better at both things. The student doesn't need to be mathematical in the sense of listing numbers, but ideally the student will understand that absolute advantage does involve numbers. For example, a heart surgeon can probably deliver more newspapers per day than the neighborhood kid, and can successfully operate more times per day, but it makes sense for the kid to deliver all the newspapers so that the heart surgeon can focus on where he or she is really good.

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

Question: [Give an example not from the textbook involving by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/give-an-example-not-from-the-textbook-involving-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/give-an-example-not-from-the-textbook-involving-by-dr-robert-murphy?pdf=1505>

4.1.8. Identify a profession for which one might require a certain natural...

Author: Robert Murphy

Identify a profession for which one might require a certain natural aptitude, and explain why.

- Basketball players need to be naturally quick.
No matter how much they practice shooting and dribbling, if they have always been really slow, they're not going to be good at basketball.
Sample Partial Credit Answer
Race car driver.

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

Question: [Identify a profession for which one might by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/identify-a-profession-for-which-one-might-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/identify-a-profession-for-which-one-might-by-dr-robert-murphy-mises?pdf=1505>

4.1.9. Identify a profession in which current practitioners don't require ...

Author: Robert Murphy

Identify a profession in which current practitioners don't require much of a natural aptitude but where extensive training / experience is necessary.

- Teaching English / being manager of a store in the mall / data entry for a particular company's unique database.

[NOTE TO TEACHER: For just about any profession, there is some natural aptitude required, in order to excel.

For example, some people just aren't "management material" and could never become the manager of a store in the mall, no matter how long they worked there.

But that seems different from saying that some people could never be theoretical physicists, or starting pitchers for the Yankees, no matter how long they prepared.

The important thing is that the student understands the difference between natural aptitude and training.]

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

Question: [Identify a profession in which current practitioners by Dr. Robert](#)

Flashcards:

<http://www.quizover.com/flashcards/identify-a-profession-in-which-current-practitioners-by-dr-robert?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/identify-a-profession-in-which-current-practitioners-by-dr-robert?pdf=1505>

4.1.10. Explain why, in a system with no division of labor, it is likely th...

Author: Robert Murphy

Explain why, in a system with no division of labor, it is likely that most people would be living in or on the edge of poverty

- The division of labor greatly enhances the productivity of labor, meaning that more goods are produced per hour of labor. When people specialize and trade, there is more stuff to go around. Without the division of labor, everyone would produce his own food, make his own clothes, etc., and would be extremely poor.

Sample Partial Credit Answer

People would grow their own food etc.

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

Question: [Explain why in a system with no division by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-why-in-a-system-with-no-division-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-why-in-a-system-with-no-division-by-dr-robert-murphy-mises?pdf=1505>

4.1.11. Describe a scenario in which a doubling of inputs more than doubles...

Author: Robert Murphy

Describe a scenario in which a doubling of inputs more than doubles

the output. What do economists call this phenomenon?

- If I double the amount of time, raw pasta, etc. that I devote to the task, I can more than double the amount of dinner I prepare. That's why it makes sense for people living in a household to take turns making dinner (and for restaurants to open). This phenomenon is called "economies of scale."

Sample Partial Credit Answer

Raking leaves.

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

Question: [Describe a scenario in which a doubling by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/describe-a-scenario-in-which-a-doubling-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/describe-a-scenario-in-which-a-doubling-by-dr-robert-murphy-mises?pdf=1505>

4. Chapter: Lesson 09: Entrepreneurship and Competition

1. Lesson 09: Entrepreneurship and Competition Questions

4.1.1. Why is the entrepreneur the "driving force" of a market economy?

Author: Robert Murphy

Why is the entrepreneur the "driving force" of a market economy?

- It is the entrepreneur who directly organizes economic affairs, deciding how resources will be combined and which goods will be produced in what quantities.

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

Question: [Why is the entrepreneur the driving force by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-is-the-entrepreneur-the-driving-force-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-is-the-entrepreneur-the-driving-force-by-dr-robert-murphy-mises?pdf=1505>

4.1.2. In the real world, why are all capitalists also entrepreneurs?

Author: Robert Murphy

In the real world, why are all capitalists also entrepreneurs?

- In textbooks we neatly isolate the various functions (entrepreneur, capitalist, laborer, landowner, etc.). However in reality, an entrepreneur is ultimately someone who surveys the status quo and takes risky or uncertain actions to strive for a better future. Specifically, anyone who invests in a venture is acting as an entrepreneur, because the capitalist must believe in the project and stands to lose everything if the forecast is wrong.

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

Question: [In the real world why are all capitalists by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/in-the-real-world-why-are-all-capitalists-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/in-the-real-world-why-are-all-capitalists-by-dr-robert-murphy-mises?pdf=1505>

4.1.3. What motivates and regulates entrepreneurs in a market economy?

Author: Robert Murphy

What motivates and regulates entrepreneurs in a market economy?

- Competition.

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

Question: [What motivates and regulates entrepreneurs by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-motivates-and-regulates-entrepreneurs-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-motivates-and-regulates-entrepreneurs-by-dr-robert-murphy?pdf=1505>

4.1.4. How does the competitive process unfold through "imitation and inno...

Author: Robert Murphy

How does the competitive process unfold through "imitation and innovation"?

- No entrepreneur starts from scratch. He or she first sees what others are doing, and then tries to make improvements in order to attract customers from others. Even someone who starts a completely new business is still competing (ultimately) against all other entrepreneurs, for the scarce dollars of potential customers. For example, a movie theater owner competes not merely with other theater owners, but also with the owners of amusement parks, and even the owners of restaurants and gyms. Whenever a customer spends money at one business, that is less money available for other shops.

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

Question: [How does the competitive process unfold by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/how-does-the-competitive-process-unfold-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-does-the-competitive-process-unfold-by-dr-robert-murphy-mises?pdf=1505>

4.1.5. How does competition protect workers?

Author: Robert Murphy

How does competition protect workers?

- If a particular worker is being paid less than his or her marginal product, there is an opportunity for a competing entrepreneur to offer a higher wage and pocket the (smaller) gap. The only logical stopping point for this process is when all workers are paid in line with how much they contribute.

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

Question: [How does competition protect workers by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/how-does-competition-protect-workers-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-does-competition-protect-workers-by-dr-robert-murphy-mises?pdf=1505>

4.1.6. Explain how entrepreneurs are the driving force of a market economy.

Author: Robert Murphy

Explain how entrepreneurs are the driving force of a market economy.

- Entrepreneurs perceive an opportunity to hire workers and buy other resources, in order to create a product or service for consumers. If the entrepreneurs are successful, they earn a profit, meaning that (in a sense) they are transforming resources into finished goods/services that have a higher value than what was used up in making them. It is the entrepreneurs who make the day-to-day decisions on how resources will be used.

Sample Partial Credit Answer

Entrepreneurs start new businesses

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

Question: [Explain how entrepreneurs are the driving by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-entrepreneurs-are-the-driving-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-entrepreneurs-are-the-driving-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Explain how an employer calculates the marginal productivity of a w...

Author: Robert Murphy

Explain how an employer calculates the marginal productivity of a worker.

- The employer estimates how much income or profit he would earn with the worker, compared to how much he would earn without the worker. (These estimates don't count the additional expense of hiring the worker.) The difference is the marginal productivity of the worker, and represents the most that the employer would pay to hire her.
Sample Partial Credit Answer
The employer pays the worker how much she is worth to the company.

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

Question: [Explain how an employer calculates the marginal by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-an-employer-calculates-the-marginal-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-an-employer-calculates-the-marginal-by-dr-robert-murphy?pdf=1505>

4.1.8. Explain how competition protects workers.

Author: Robert Murphy

Explain how competition protects workers.

- If a worker isn't being paid his marginal product, there is a "gap" making it worthwhile for a rival employer to make a better offer. In the long run, we therefore expect workers to make (close to) their marginal products.

Sample Partial Credit Answer

A worker can always quit her job if she doesn't like it.

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

Question: [Explain how competition protects workers by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-competition-protects-workers-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-competition-protects-workers-by-dr-robert-murphy-mises?pdf=1505>

4.1.9. Explain how competition protects consumers.

Author: Robert Murphy

Explain how competition protects consumers.

- If a firm is making a low-quality or high-priced product, a rival firm can capture market share by offering higher-quality and/or lowerpriced items. No business can force consumers to buy its products or services.

Sample Partial Credit Answer

Consumers can shop around.

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

Question: [Explain how competition protects consumers by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-competition-protects-consumers-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-competition-protects-consumers-by-dr-robert-murphy?pdf=1505>

4. Chapter: Lesson 10: Income, Saving , and Investment

1. Lesson 10: Income, Saving , and Investment Questions

4.1.1. Can investment occur without saving?

Author: Robert Murphy

Can investment occur without saving?

- No. The only way there are resources (whether financial or physical) available for investment, is if someone has lived below his or her means, i.e., saved.

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

Question: [Can investment occur without saving by Dr. Robert Murphy @Mises Institute](#)

Flashcards:

<http://www.quizover.com/flashcards/can-investment-occur-without-saving-by-dr-robert-murphy-mises-institut?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/can-investment-occur-without-saving-by-dr-robert-murphy-mises-institut?pdf=1505>

4.1.2. What are the pros and cons of saving a high fraction of your income?

Author: Robert Murphy

What are the pros and cons of saving a high fraction of your income?

- The pros are a higher future wealth and income, the cons are less consumption in the near term.

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

Question: [What are the pros and cons of saving a high by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-are-the-pros-and-cons-of-saving-a-high-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-are-the-pros-and-cons-of-saving-a-high-by-dr-robert-murphy?pdf=1505>

4.1.3. What's the connection between saving and retirement?

Author: Robert Murphy

What's the connection between saving and retirement?

- People can fund their own retirement lifestyle by saving enough during their working years.

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

Question: [What s the connection between saving and by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/what-s-the-connection-between-saving-and-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-s-the-connection-between-saving-and-by-dr-robert-murphy-mises?pdf=1505>

4.1.4. If someone borrows in order to buy today rather than waiting to pay...

Author: Robert Murphy

If someone borrows in order to buy today rather than waiting to pay cash, is this an example of uneconomical behavior?

- No, it simply illustrates the person's preferences. Just as one person might be willing to pay \$50 on a juicy steak, while another person would regard this as absurd, so too might someone be willing to pay a high interest rate in order to consume earlier rather than later. There is nothing intrinsically irrational or uneconomical about such a decision, which couldn't be applied just as well to other consumer decisions.

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

Question: [If someone borrows in order to buy today by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/if-someone-borrows-in-order-to-buy-today-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-someone-borrows-in-order-to-buy-today-by-dr-robert-murphy-mises?pdf=1505>

4.1.5. Is it possible for every individual in the community to accumulate ...

Author: Robert Murphy

Is it possible for every individual in the community to accumulate assets for retirement—or does one person's rising wealth translate into someone else's rising debt?

- Yes, everyone in principle can accumulate financial assets to fund retirement. It's not the case that one person's accumulating wealth translates into someone else's growing indebtedness. (It's true that various corporations and other entities must be on "the other side" of someone else's growing stockpile of financial claims, but this need not reflect a growing danger to the corporations, so long as they are using the loans productively.)

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

Question: [Is it possible for every individual in the by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/is-it-possible-for-every-individual-in-the-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/is-it-possible-for-every-individual-in-the-by-dr-robert-murphy?pdf=1505>

4.1.6. If you expect to live to at least 80 years old, why should you seri...

Author: Robert Murphy

If you expect to live to at least 80 years old, why should you seriously consider saving a large amount of your income and investing it while you are young?

- At some point I will not want to, or even be able to, work full time and earn an income. I will want to have a big stockpile of savings to live off of at that point, so that I don't need to ask my family or the government to support me. Because of compound interest, if I start saving just a little bit earlier in my life, it can have a tremendous impact on how much wealth I have when I retire.

Sample Partial Credit Answer

I need to save so that I will be able to live when I am older.

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

Question: [If you expect to live to at least 80 years by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-you-expect-to-live-to-at-least-80-years-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-you-expect-to-live-to-at-least-80-years-by-dr-robert-murphy?pdf=1505>

4.1.7. Respond to someone who says, "It hurts the economy when people save..."

Author: Robert Murphy

Respond to someone who says, "It hurts the economy when people save too much, because if people don't spend, then businesses can't hire workers."

- When people save, that allows for more investment which fills the gap in spending. After the economy adjusts to the new level of saving, everybody can still get a job. It's just that more workers will be making things like tools and equipment, rather than restaurant meals and music concerts.

Sample Partial Credit Answer

The economy will eventually adjust even if people start saving a lot.

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

Question: [Respond to someone who says It hurts the by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/respond-to-someone-who-says-it-hurts-the-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/respond-to-someone-who-says-it-hurts-the-by-dr-robert-murphy-mises?pdf=1505>

4.1.8. How does the accumulation of capital goods help workers who don't o...

Author: Robert Murphy

How does the accumulation of capital goods help workers who don't own them?

- Workers are paid according to their marginal productivity. When they combine their labor with better tools and equipment, workers can produce more per hour, so they end up earning a higher wage, even if they don't own the tools they're using.

Sample Partial Credit Answer

If more stuff is produced, people are richer.

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

Question: [How does the accumulation of capital goods by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/how-does-the-accumulation-of-capital-goods-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-does-the-accumulation-of-capital-goods-by-dr-robert-murphy?pdf=1505>

4.1.9. Respond to someone who says, "For every lender who grows rich, ther..."

Author: Robert Murphy

Respond to someone who says, "For every lender who grows rich, there must be a borrower who grows poor."

- This is wrong because it overlooks the possibility of "productive borrowing." A business can borrow money by issuing bonds, for example, and use the funds to invest in expanding its operations. Although the business has to pay out interest on the loans, its investment gives it higher revenues, so it can afford to do so and is better off for having borrowed the money.

Sample Partial Credit Answer

That might be true in some cases but it isn't always true.

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

Question: [Respond to someone who says For every lender by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/respond-to-someone-who-says-for-every-lender-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/respond-to-someone-who-says-for-every-lender-by-dr-robert-murphy?pdf=1505>

4. Chapter: Lesson 11 Supply and Demand

1. Lesson 11 Supply and Demand Questions

4.1.1. Why does the text say that supply and demand can never be proven fa...

Author: Robert Murphy

Why does the text say that supply and demand can never be proven false?

- The concepts of supply and demand are not "theories," they are instead tools of analysis. Future economists might stop using them as tools if they find different ways of explaining market prices that are more convenient or superior in some other fashion.

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

Question: [Why does the text say that supply and demand by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/why-does-the-text-say-that-supply-and-demand-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-does-the-text-say-that-supply-and-demand-by-dr-robert-murphy?pdf=1505>

4.1.2. Why does the text say that demand is a snapshot in time?

Author: Robert Murphy

Why does the text say that demand is a snapshot in time?

- A person's demand schedule is an instantaneous relationship between hypothetical prices and the corresponding quantity the person would buy at each price. If time passes, the person's preferences or other factors might change, leading to a different demand schedule.

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

Question: [Why does the text say that demand is a snapshot by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/why-does-the-text-say-that-demand-is-a-snapshot-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-does-the-text-say-that-demand-is-a-snapshot-by-dr-robert-murphy?pdf=1505>

4.1.3. How do you go from individual demand or supply schedules, to market...

Author: Robert Murphy

How do you go from individual demand or supply schedules, to market demand and supply schedules?

- At each price, the market quantity of demand or supply is the summation of the individual quantities at that price.

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

Question: [How do you go from individual demand or by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/how-do-you-go-from-individual-demand-or-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-do-you-go-from-individual-demand-or-by-dr-robert-murphy-mises?pdf=1505>

4.1.4. Explain how the market process tends to push prices toward their eq...

Author: Robert Murphy

Explain how the market process tends to push prices toward their equilibrium levels.

- If the price is above the equilibrium level, the quantity supplied exceeds the quantity demanded, meaning there is a surplus or glut. Because producers are trying to sell more units than buyers wish to purchase, they tend to lower their asking price. On the other hand, if the price is below the equilibrium level, the quantity demanded exceeds the quantity supplied, meaning there is a shortage. Because consumers are trying to buy more units than producers wish to sell, producers have an incentive to raise their asking price (or consumers bid higher prices, depending on the mechanics of the particular market).

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

Question: [Explain how the market process tends to by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-the-market-process-tends-to-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-the-market-process-tends-to-by-dr-robert-murphy-mises?pdf=1505>

4.1.5. If supply increases while demand decreases, what can we say about t...

Author: Robert Murphy

If supply increases while demand decreases, what can we say about the change in (equilibrium) price? What about the change in (equilibrium) quantity?

- The equilibrium price will definitely drop, because both changes point in that direction. However, we don't know what will happen to the equilibrium quantity, because the supply shift tends to increase it, while the demand shift tends to decrease it. Without more information we don't know which effect will dominate.

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

Question: [If supply increases while demand decreases by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-supply-increases-while-demand-decreases-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-supply-increases-while-demand-decreases-by-dr-robert-murphy?pdf=1505>

4.1.6. Define supply (not the Law of Supply).

Author: Robert Murphy

Define supply (not the Law of Supply).

- The relationship between hypothetical prices and the quantity of a good or service that producers want to sell at each price.

Sample Partial Credit Answer

How much producers want to sell.

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

Question: [Define supply not the Law of Supply . by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/define-supply-not-the-law-of-supply-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/define-supply-not-the-law-of-supply-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Define demand (not the Law of Demand).

Author: Robert Murphy

Define demand (not the Law of Demand).

- The relationship between hypothetical prices and the quantity of a good or service that consumers want to buy at each price.

Sample Partial Credit Answer

How much consumers want to buy.

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

Question: [Define demand not the Law of Demand . by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/define-demand-not-the-law-of-demand-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/define-demand-not-the-law-of-demand-by-dr-robert-murphy-mises?pdf=1505>

4.1.8. Why is it called an "equilibrium" price when quantity demanded equa...

Author: Robert Murphy

Why is it called an "equilibrium" price when quantity demanded equals quantity supplied?

- If the price were higher than the equilibrium price, there would be a surplus and producers would lower prices to move the unsold stock. If the price were lower than the equilibrium price, there would be a shortage and consumers would bid up the price on the available stock. Only at the equilibrium price is there no incentive for the price to move away, hence it is a stable position for the price.

Sample Partial Credit Answer

It is a stable point.

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

Question: [Why is it called an equilibrium price when by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/why-is-it-called-an-equilibrium-price-when-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-is-it-called-an-equilibrium-price-when-by-dr-robert-murphy?pdf=1505>

4.1.9. Explain how the demand for something can remain constant, but the q...

Author: Robert Murphy

Explain how the demand for something can remain constant, but the quantity demanded can decline.

- If the price goes up, then we move along the original demand curve. The curve itself stays put, so "demand" is constant, but at the higher price there is a lower quantity demanded.

Sample Partial Credit Answer

The price can change.

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

Question: [Explain how the demand for something can by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-the-demand-for-something-can-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-the-demand-for-something-can-by-dr-robert-murphy-mises?pdf=1505>

4.1.10. Explain how a glut in the orange market can be bad news for the pro...

Author: Robert Murphy

Explain how a glut in the orange market can be bad news for the producers of apples.

- A glut in the orange market will probably lead to lower orange prices. Then, since oranges are substitutes for apples (at least for many consumers), the lower orange prices will lead to a leftward shift in the demand for apples. Apple producers will therefore earn a lower price on apples.
Sample Partial Credit Answer
It will push down the price of apples.

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

Question: [Explain how a glut in the orange market by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-a-glut-in-the-orange-market-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-a-glut-in-the-orange-market-by-dr-robert-murphy-mises?pdf=1505>

4. Chapter: Lesson 12: Interest, Credit, and Debt

1. Lesson 12: Interest, Credit, and Debt Questions

4.1.1. Why is the first section titled, "Interest: It's About Time"?

Author: Robert Murphy

Why is the first section titled, "Interest: It's About Time"?

- Interest rates coordinate the actions of savers and investors. When people postpone consumption today, it frees up resources that can begin producing the goods and services that the savers will buy in the future.

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

Question: [Why is the first section titled Interest by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-is-the-first-section-titled-interest-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-is-the-first-section-titled-interest-by-dr-robert-murphy-mises?pdf=1505>

4.1.2. *What is the connection between interest rates and currency exchange...

Author: Robert Murphy

*What is the connection between interest rates and currency exchange rates?

- Interest rates allow entrepreneurs to convert money units from different years into a common denominator. Currency exchange rates allow entrepreneurs to convert money units from different countries into a common denominator.

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

Question: [What is the connection between interest by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-the-connection-between-interest-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-the-connection-between-interest-by-dr-robert-murphy-mises?pdf=1505>

4.1.3. Why does a low interest rate give a "green light" to long productio...

Author: Robert Murphy

Why does a low interest rate give a "green light" to long production processes?

- Entrepreneurs must buy inputs first, then sell the output later. The lower the interest rate, the more valuable the future revenue from customers will appear in today's calculations. Therefore, a given process with fixed dollar payments for inputs in the beginning, and a fixed dollar payment by customers at the end, will appear more profitable as the interest rate gets lower and lower.

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

Question: [Why does a low interest rate give a green by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/why-does-a-low-interest-rate-give-a-green-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/why-does-a-low-interest-rate-give-a-green-by-dr-robert-murphy-mises?pdf=1505>

4.1.4. What is exchanged in a credit transaction?

Author: Robert Murphy

What is exchanged in a credit transaction?

- The lender gives money in exchange for an IOU from the borrower.

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

Question: [What is exchanged in a credit transaction by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-exchanged-in-a-credit-transaction-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-exchanged-in-a-credit-transaction-by-dr-robert-murphy-mises?pdf=1505>

4.1.5. What is "productive debt"?

Author: Robert Murphy

What is "productive debt"?

- Debt that is used by the borrower in the hopes of increasing his or her future income.

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

Question: [What is productive debt by Dr. Robert Murphy @Mises Institute Capitalism](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-productive-debt-by-dr-robert-murphy-mises-institute-capitalism?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-productive-debt-by-dr-robert-murphy-mises-institute-capitalism?pdf=1505>

4.1.6. Justin forgot his lunch money at home. To make matters worse, it wa...

Author: Robert Murphy

Justin forgot his lunch money at home. To make matters worse, it was pizza day at school, and Justin loves pizza. However, his friend, Vraj,

always has money, so Justin asks if he can borrow \$2.00. Vraj agrees, but insists upon being paid back \$2.50 the next day. Calculate the (daily) interest rate of Vraj's loan.

- 25%.
[50 cents in interest divided by the original amount of \$2 = 25%.]

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

Question: [Justin forgot his lunch money at home. To by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/justin-forgot-his-lunch-money-at-home-to-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/justin-forgot-his-lunch-money-at-home-to-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Explain why the deal between Justin and Vraj was mutually beneficial.

Author: Robert Murphy

Explain why the deal between Justin and Vraj was mutually beneficial.

- Both agreed to it, so we know it was mutually beneficial. Justin got to eat his pizza, which he valued more than giving up the future 50 cents in interest, and Vraj earned the interest, which he valued more than what he otherwise could have done with his \$2 the day he lent it.

Sample Partial Credit Answer

Both agreed to it.

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

Question: [Explain why the deal between Justin and by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-why-the-deal-between-justin-and-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-why-the-deal-between-justin-and-by-dr-robert-murphy-mises?pdf=1505>

4.1.8. Other things equal, an increase in interest rates will have what ef...

Author: Robert Murphy

Other things equal, an increase in interest rates will have what effect on the quantity demanded of loans?

- People will demand fewer loans or loans of a smaller amount.

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

Question: [Other things equal an increase in interest by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/other-things-equal-an-increase-in-interest-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/other-things-equal-an-increase-in-interest-by-dr-robert-murphy?pdf=1505>

4.1.9. Identify what happens to interest rates when a community saves more...

Author: Robert Murphy

Identify what happens to interest rates when a community saves more in general, and generalize the signal that this sends to entrepreneurs.

- Interest rates tend to go down when people save more. This effectively signals entrepreneurs that they should borrow and invest more, in longer-term projects.
Sample Partial Credit Answer
Interest rates go down.

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

Question: [Identify what happens to interest rates by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/identify-what-happens-to-interest-rates-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/identify-what-happens-to-interest-rates-by-dr-robert-murphy-mises?pdf=1505>

4.1.10. When a company sells a bond, what is it essentially doing?

Author: Robert Murphy

When a company sells a bond, what is it essentially doing?

- It is borrowing money.

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

Question: [When a company sells a bond what is it essentially by Dr. Robert](#)

Flashcards:

<http://www.quizover.com/flashcards/when-a-company-sells-a-bond-what-is-it-essentially-by-dr-robert?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/when-a-company-sells-a-bond-what-is-it-essentially-by-dr-robert?pdf=1505>

4.1.11. What is the economic benefit of a credit intermediary such as a bank?

Author: Robert Murphy

What is the economic benefit of a credit intermediary such as a bank?

- The bank matches up savers with borrowers. The bank's presence helps lower the cost of finding each other, and it makes the process safer for lenders.
Sample Partial Credit Answer
Businesses that need funds can borrow them from a bank.

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

Question: [What is the economic benefit of a credit by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/what-is-the-economic-benefit-of-a-credit-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-is-the-economic-benefit-of-a-credit-by-dr-robert-murphy-mises?pdf=1505>

4.1.12. Discuss this statement: "Getting rid of all records of credit histo..."

Author: Robert Murphy

Discuss this statement: "Getting rid of all records of credit histories and credit reports would help borrowers."

- Without having access to a person's past behavior, a potential lender might assume the worst and charge a high interest rate. The responsible borrowers would end up being worse off, without the ability to demonstrate their good track record.
Sample Partial Credit Answer
This would be bad because lenders rely on that information.

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

Question: [Discuss this statement Getting rid of all by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/discuss-this-statement-getting-rid-of-all-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/discuss-this-statement-getting-rid-of-all-by-dr-robert-murphy-mises?pdf=1505>

4.1.13. Explain why the interest rates on unsecured loans tend to be higher...

Author: Robert Murphy

Explain why the interest rates on unsecured loans tend to be higher than those on secured loans.

- If the borrower defaults on a secured loan, the lender can repossess the collateral to offset the loss. If the borrower defaults on an unsecured loan, the lender has no recourse. To compensate for the added risk, a lender will charge more (other things equal) for an unsecured loan.

Sample Partial Credit Answer

They are riskier.

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

Question: [Explain why the interest rates on unsecured by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-why-the-interest-rates-on-unsecured-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-why-the-interest-rates-on-unsecured-by-dr-robert-murphy?pdf=1505>

4. Chapter: Lesson 13: Profit and Loss Accounting

1. Lesson 13: Profit and Loss Accounting Questions

4.1.1. Explain: "Entrepreneurs do not respond to particular prices but rat..."

Author: Robert Murphy

Explain: "Entrepreneurs do not respond to particular prices but rather to the difference between certain prices."

- Most entrepreneurs are not out to maximize revenues, but rather to earn profits. Monetary profit is the difference between the revenues from customers and the expenditures on inputs. Just because a particular price is very high doesn't automatically mean that entrepreneurs rush to produce the item in question; the expenses involved in producing the item might be really high too.

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

Question: [Explain Entrepreneurs do not respond to by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-entrepreneurs-do-not-respond-to-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-entrepreneurs-do-not-respond-to-by-dr-robert-murphy-mises?pdf=1505>

4.1.2. Explain: "In a market economy with open competition, there is a ten..."

Author: Robert Murphy

Explain: "In a market economy with open competition, there is a tendency for monetary profits and losses to be whittled away over time, as entrepreneurs adjust to the situation."

- If the prices in a certain industry allow the firms to reap large monetary profits, this will tend to attract competitors. By producing more of the finished good (or service), they push down its price, and by buying more of the inputs needed to produce it, they push up the costs of production. Thus the overall profit margin shrinks. The reverse happens in an industry suffering from monetary losses.

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

Question: [Explain In a market economy with open competition by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-in-a-market-economy-with-open-competition-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-in-a-market-economy-with-open-competition-by-dr-robert-murphy?pdf=1505>

4.1.3. *How does interest relate to profit, specifically the difference be...

Author: Robert Murphy

*How does interest relate to profit, specifically the difference between accounting and economic profit?

- In everyday language, and even in terms of standard accounting, "profit" refers to the excess of money receipts over money expenditures. But this figure includes the interest payment on the invested capital in the business. In other words, out of the gross or accounting profit we need to subtract the interest payment reflecting the fact that the investors' capital was tied up for a certain period when it could have been "at work" in another project.

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

Question: [How does interest relate to profit specifically by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/how-does-interest-relate-to-profit-specifically-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-does-interest-relate-to-profit-specifically-by-dr-robert-murphy?pdf=1505>

4.1.4. In what sense do consumers—rather than the "captains of industry"—g...

Author: Robert Murphy

In what sense do consumers—rather than the "captains of industry"—guide the production decisions in a market economy?

- With their spending decisions, consumers provide guidance to entrepreneurs, to the extent that they allow themselves to be steered by considerations of (monetary) profit.
It is the spending of smokers that leads farmers to plant tobacco.

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

Question: [In what sense do consumers rather than the by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/in-what-sense-do-consumers-rather-than-the-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/in-what-sense-do-consumers-rather-than-the-by-dr-robert-murphy?pdf=1505>

4.1.5. Does a market economy force entrepreneurs to do whatever makes the ...

Author: Robert Murphy

Does a market economy force entrepreneurs to do whatever makes the most profit?

- No, in a market economy the owner determines the fate of a particular unit of resources (including labor services). No matter how high the price of cigarettes, a farmer doesn't have to plant tobacco if he doesn't want to. But market prices do allow resource owners to make informed decisions. They get a sense of how much other people want to encourage them to use their resources in a particular way.

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

Question: [Does a market economy force entrepreneurs by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/does-a-market-economy-force-entrepreneurs-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/does-a-market-economy-force-entrepreneurs-by-dr-robert-murphy-mises?pdf=1505>

4.1.6. Explain why, generally speaking, activities that generate high (mon...

Author: Robert Murphy

Explain why, generally speaking, activities that generate high (monetary) profits will attract more entrepreneurs, while those that cause losses will repel entrepreneurs.

- Although there are other motivations, generally speaking people go into business to earn monetary profits. In general, entrepreneurs will mimic those activities that are generating monetary profits for other people, and they will stop doing those activities that are causing losses. By acting in this fashion, entrepreneurs try to earn as much monetary profit as they can, other things equal.

Sample Partial Credit Answer

If a business keeps losing money, eventually it will go bankrupt.

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

Question: [Explain why generally speaking activities by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-why-generally-speaking-activities-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-why-generally-speaking-activities-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Explain the distinction economists often make between interest and ...

Author: Robert Murphy

Explain the distinction economists often make between interest and profit.

- Gross or accounting profit is total revenue minus out-of-pocket expenditures. However, this calculation ignores the interest on the invested capital. Even if a business venture "makes money," if the investor could have ended up with even more money through a different (and equally safe) investment, then in a sense the investor actually suffered a loss.

Sample Partial Credit Answer

Profit can mislead if it doesn't include interest.

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

Question: [Explain the distinction economists often by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-the-distinction-economists-often-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-the-distinction-economists-often-by-dr-robert-murphy-mises?pdf=1505>

4.1.8. Does the profit and loss system force movie theaters to stay open o...

Author: Robert Murphy

Does the profit and loss system force movie theaters to stay open on Christmas? Explain.

- No, the owners of theaters always have the ability to keep them closed on holidays. Yet very few owners exercise this right, because it is so profitable to have movies open on holidays. The profit and loss system communicates to the owners how much people want to watch movies on their holiday breaks.
Sample Partial Credit Answer
No, they can close down if they want to.

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

Question: [Does the profit and loss system force movie by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/does-the-profit-and-loss-system-force-movie-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/does-the-profit-and-loss-system-force-movie-by-dr-robert-murphy?pdf=1505>

4.1.9. Explain how the profit and loss system communicates the desires of ...

Author: Robert Murphy

Explain how the profit and loss system communicates the desires of consumers to resource owners and entrepreneurs.

- Through their spending decisions, consumers give entrepreneurs the money with which they bid on worker hours, oil, land, equipment, and other inputs. The prices of the inputs reflect how urgently those resources are needed in certain lines, to produce particular goods and services that some consumers desire. Loosely speaking, a profitable business is taking undervalued resources and transforming them into outputs that have a higher value, while an unprofitable business is wasting resources on projects that are not as valuable as alternatives.
Sample Partial Credit Answer
If consumers want something they will pay a lot for it.

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

Question: [Explain how the profit and loss system communicates by Dr. Robert](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-the-profit-and-loss-system-communicates-by-dr-robert?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-the-profit-and-loss-system-communicates-by-dr-robert?pdf=1505>

4.1.10. If smoking is bad for you, then why do farmers grow tobacco?

Author: Robert Murphy

If smoking is bad for you, then why do farmers grow tobacco?

- Some consumers are smokers and are willing to pay a lot of money for cigarettes. Companies then find it worthwhile to spend a lot on tobacco in order to produce cigarettes. The high price of tobacco makes it attractive for some farmers to plant it, rather than other crops.

Sample Partial Credit Answer

To make money.

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

Question: [If smoking is bad for you then why do farmers by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/if-smoking-is-bad-for-you-then-why-do-farmers-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-smoking-is-bad-for-you-then-why-do-farmers-by-dr-robert-murphy?pdf=1505>

4. Chapter: Lesson 14: The Stock Market

1. Lesson 14: The Stock Market Questions

4.1.1. If Jim owns 200 shares of a corporation, can we figure out how much...

Author: Robert Murphy

If Jim owns 200 shares of a corporation, can we figure out how much of the corporation Jim owns?

- No, we need to know the total number of shares as well, in order to calculate Jim's percentage. The point of this question is to make sure the student realizes corporations have different amounts of stock shares.

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

Question: [If Jim owns 200 shares of a corporation by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/if-jim-owns-200-shares-of-a-corporation-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-jim-owns-200-shares-of-a-corporation-by-dr-robert-murphy-mises?pdf=1505>

4.1.2. What are the two basic options a corporation can take to raise new ...

Author: Robert Murphy

What are the two basic options a corporation can take to raise new funds?

- The corporation can issue debt (i.e., sell bonds) or equity (i.e., sell new shares of stock).

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

Question: [What are the two basic options a corporation by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/what-are-the-two-basic-options-a-corporation-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/what-are-the-two-basic-options-a-corporation-by-dr-robert-murphy?pdf=1505>

4.1.3. Who gets first dibs on the earnings of a corporation—the bondholder...

Author: Robert Murphy

Who gets first dibs on the earnings of a corporation—the bondholders or the stockholders?

- The bondholders. The stockholders are residual claimants, meaning they are only entitled to the assets of the corporation after everyone else (suppliers, lenders, laid-off employees filing a lawsuit, customers demanding a refund, etc.) has been satisfied.

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

Question: [Who gets first dibs on the earnings of a by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/who-gets-first-dibs-on-the-earnings-of-a-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/who-gets-first-dibs-on-the-earnings-of-a-by-dr-robert-murphy-mises?pdf=1505>

4.1.4. If a corporation is highly leveraged, will its stock be more likely...

Author: Robert Murphy

If a corporation is highly leveraged, will its stock be more likely to appeal to a conservative or an aggressive investor?

- The "correct" answer is the aggressive investor. In reality even a conservative investor might own a small portion of a highly leveraged company, so long as the investor diversifies his holdings across many corporations. But in this basic question we are just trying to get the student to understand that—other things equal—more leverage tends to magnify potential gains and potential losses.

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

Question: [If a corporation is highly leveraged will by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/if-a-corporation-is-highly-leveraged-will-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/if-a-corporation-is-highly-leveraged-will-by-dr-robert-murphy-mises?pdf=1505>

4.1.5. *How do successful speculators reduce the volatility of stock prices?

Author: Robert Murphy

*How do successful speculators reduce the volatility of stock prices?

- A stock price is volatile when it bounces around a lot, rather than moving within a narrow band. Stock speculators, if they are profitable, tend to reduce the band in which a stock price moves. If a stock price is above where it "should" be, the astute speculator will sell it, pushing down the price. If the price is originally too low, the astute speculator will buy the stock, pushing up the price.

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

Question: [How do successful speculators reduce the by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/how-do-successful-speculators-reduce-the-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/how-do-successful-speculators-reduce-the-by-dr-robert-murphy-mises?pdf=1505>

4.1.6. Explain why companies might want to raise outside funds, rather tha...

Author: Robert Murphy

Explain why companies might want to raise outside funds, rather than financing any desired spending out of profits.

- A company might see an opportunity that it needs to seize quickly. For example, if a company thinks it can double its profits by building another \$10 million factory, but only has \$1 million in net income each year, it may want to raise the needed money from outsiders rather than wait (at least) ten years before expanding.

Sample Partial Credit Answer

A company thinks it can make more money.

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

Question: [Explain why companies might want to raise by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-why-companies-might-want-to-raise-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-why-companies-might-want-to-raise-by-dr-robert-murphy-mises?pdf=1505>

4.1.7. Discuss the distinction between a corporation raising new funds by ...

Author: Robert Murphy

Discuss the distinction between a corporation raising new funds by issuing debt versus stock.

- When a corporation issues debt, its leverage increases and it is more vulnerable if its assets lose value. The upside is that if the corporation does well, it only owes the bondholders a fixed amount of interest payments. When a corporation issues stock, outsiders now share in the profits or losses, which cushions the blow but also reduces the potential gains to the original owners.

Sample Partial Credit Answer

Issuing debt is riskier.

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

Question: [Discuss the distinction between a corporation by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/discuss-the-distinction-between-a-corporation-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/discuss-the-distinction-between-a-corporation-by-dr-robert-murphy?pdf=1505>

4.1.8. Explain how speculators actually regulate the stock market in a healthy and non-interventionist way.

Author: Robert Murphy

Explain how speculators actually regulate the stock market in a healthy and non-interventionist way.

- A speculator buys low and sells high, or short-sells high and buys back low. A successful speculator therefore bids up underpriced stocks, and pushes down overpriced stocks. Successful speculation therefore makes stock prices less volatile for other, less knowledgeable investors.
Sample Partial Credit Answer
Speculators correct mispricings in the stock market.

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

Question: [Explain how speculators actually regulate by Dr. Robert Murphy @Mises](#)

Flashcards:

<http://www.quizover.com/flashcards/explain-how-speculators-actually-regulate-by-dr-robert-murphy-mises?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/explain-how-speculators-actually-regulate-by-dr-robert-murphy-mises?pdf=1505>

4.1.9. In common discussions, what is the difference between an investor a...

Author: Robert Murphy

In common discussions, what is the difference between an investor and a speculator in stocks?

- People typically think of an investor as someone who intends to hold a stock for a long time either as part of a general strategy or because the company seems dependable. A speculator, on the other hand, is someone who looks to get in and out relatively quickly, after an anticipated price move.

Sample Partial Credit Answer

A speculator thinks the original price of the stock is wrong.

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

Question: [In common discussions what is the difference by Dr. Robert Murphy](#)

Flashcards:

<http://www.quizover.com/flashcards/in-common-discussions-what-is-the-difference-by-dr-robert-murphy?pdf=1505>

Interactive Question:

<http://www.quizover.com/question/in-common-discussions-what-is-the-difference-by-dr-robert-murphy?pdf=1505>