1952

An instructional unit on the distribution of the national income for use in a college economics course

Ed.
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Service paper
1952
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BOSTON UNIVERSITY

SCHOOL OF EDUCATION

Major Project

AN INSTRUCTIONAL UNIT ON THE DISTRIBUTION OF THE NATIONAL INCOME FOR USE IN A COLLEGE ECONOMICS COURSE

Submitted by

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(B. S. in Commerce, Rivier College, 1949)

In partial fulfillment of the requirements for

the degree of Master of Education

1952

To Professor Lester I. Sluder, for his guidance which proved invaluable in the preparation of this paper, I express my deep and sincere gratitude.

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TABLE OF CONTENTS

CHAPTER PAGE

CHAPTER PAGE

CHAPTER I

INTRODUCTION

Statement of the Problem

The purpose of this study was to organize and present an instructional unit for use in the teaching of an introductory course in economics. The unit, "Distribution of the National Income," is prepared according to the plan advocated by Billett[1] in the Fundamentals of Secondary-School Teaching.

Justification of the Problem

A large number of college students taking an introductory course in economics do not expect to become specialists in the field. Many of them have no idea what to expect in such a course, but they seem to feel that there is something in it for them. Pertaining to the large number who elect to study economics, Clark[2] has this to say:

> What do students want? Judging by the numbers who flock into courses in economics, there must be

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[1]Billett, Roy O., Fundamentals of Secondary-School Teaching, Houghton Mifflin Company, Boston, 1940, p. 459.

[2]Clark, John M., A Problem in the Teaching of Economics, The Edward W. Hazen Foundation, New Haven, 1951, p. 5.

> either great expectations of what they are going to get out of the courses, or at least a great felt need for something they have some reasonable hope of getting. Something has happened to the "deadly dull science." It seems evident that students expect to gain something important, and some of them find the subject vital and appealing. This presents a tremendous stimulus and responsibility to those who teach or prepare materials for teaching, to do the utmost humanly possible to meet the need and to fulfill all reasonable expectations within the limits set by the enormously difficult material.

Experience shows, however, that very often students are disappointed in their expectations, because teachers have failed to maintain interest by placing too much emphasis on theoretical principles and too little on their practical application in real life situations. Taylor,[3] as chairman of a committee appointed for the study of the teaching of economics in colleges, reports:

> A specter is haunting teachers of economics, the specter of bad teaching. . . . Opinion seems to be rather general that the first course in economics, usually called Principles of Economics is deadly impractical, and probably the worst taught course in American colleges and universities. Why do so many superior students leave the principles course with a 'neveragain' attitude towards economics offerings in general? Why is the course deadly and apparently taught without reference to the needs and interests of students? These are questions which require the immediate attention of economists and college administrators everywhere.

Economics is becoming more and more important. The preservation of our democracy hinges to a large extent upon the understanding and appreciation of our system by all. For

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[3]Taylor, Horace, "The Teaching of Undergraduate Economics," American Economic Review, Vol. XI, No. 5, December 1950, p. 1.

the past decade or two educators have been advocating the need for a vital economics course even on the secondary level. According to Shields[4] economic illiteracy is not confined to any one group. Day-laborers, doctors, even college graduates, all reveal their superficial and unsound economic knowledge. "Very few," he continues, "see the relationship of his job to the economic scheme as a whole."

But economics can be made interesting and practical because it is a living science. As such the study of economics must of necessity be adapted to social changes. This does not imply the task of devising new laws or new principles because the old ones are as stable as one can expect them to be in a changing world. What it implies, however, is the practical application of economic tendencies to actual everyday happenings.

The college economics students, therefore, must be made to realize the close relationship between economics and the world in which they will be plunged tomorrow.

The twofold purpose of an introductory course in economics should be to help students become more intelligent citizens, and to give them the tools with which to conduct their personal business affairs in such a manner that they will proceed more effectively and with a greater degree of assurance in a complex economic society.

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[4]Shields, Harold G., "The Abolition of Economic Illiteracy" Journal of the National Education Association, Vol. XX, December 1931, p. 315.

The unit method of instruction set forth by Billett in the Fundamentals of Secondary-School Teaching has been chosen by the writer to present the topic "Distribution of the National Income," because the unit method appears to be an effective way of teaching. When used, both teacher and students see the course as a whole. Learning and progress is individualized and students are made responsible for their achievements. The learning cycle is planned to meet individual differences in that it offers a challenge to the weaker as well as to the brighter students.

While developed primarily for use in secondary schools, Billett's unit method is based on principles that must operate in every good teaching-learning situation. Thus it develops a valid way of organizing and teaching courses on the college level.

In conclusion it should be pointed out that the use of this unit method in an institution beyond the secondary level is no radical innovation. For example, it has been used by Billett in his classes at Boston University. It was the method used by Jones[5] in developing a course in anatomy for students in a school of nursing, and also by Stafford[6] in organizing

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[5]Jones, Harriet H., A Suggested Course in Anatomy and Physiology Planned on the Unit Method, Unpublished Master's Thesis, Boston University, Boston, 1944.

[6]Stafford, John J., Three Units in Economics for Prospective Classroom Teachers, Unpublished Master's Service Paper, Boston University, Boston, 1946.

three source units in economics for the specific use of teacher-training schools.

Delimitation of the Problem

The broad topic "Distribution of the National Income" organized in this paper will be divided into a number of subordinate topics including rent, wages, interest, capital, and profits. All available material that is directly or indirectly related to these subordinate topics will be called to the attention of the students. The delimitation of the unit which is for the teacher's use only was arranged to cover the most important facts pertaining to factorial distribution. This plan will give the teacher an opportunity to make use of current economic events whenever she feels that this procedure would be beneficial to the students.

Discussion of Terms

The terms used in the organization of this unit are those found in Billett's book, *Fundamentals of Secondary-School Teaching*, and adapted by the writer to the needs of the present report.

Unit organization. A unit organization is a systematic method of class preparation which involves the creation of situations capable of leading the student to discover worthy goals toward which he may want to work.

Delimitation of the Unit. A statement of the phases of the topic that are to be made the direct object of instruction in a given class of a given grade level, during a given time allotment is referred to as the delimitation of the unit. While the statement of the unit is given in three or four declarative sentences, the delimitation of the unit comprises as many declarative sentences as are necessary to define the material that the teacher wishes to make the goal of her program. The delimitation is just as important from the point of view of what it includes as from what it excludes. It generally represents the part of the topic outside of which the teacher will make no effort to lead her class.

Although the delimitation is for the teacher's use only, the vocabulary used should be such that would be understandable to the student upon completion of the corresponding unit assignment.

Unit assignment. The unit assignment consists of an exposition of the activities in which the pupils are expected to engage and which will help them bring about the changes stated in the unit and in the delimitation. It is intended to put the pupils into an interrogative state of mind. It comprises chiefly a number of questions, standards to be achieved, and problems to be solved. The assignments are arranged in such a way that the pupils may begin at different places according to their interest, and proceed at different rates of speed toward the expected goals.

Incidental and indirect learning products. The skills, attitudes, appreciations, or habits that are not considered to be a direct object of instruction are called incidental and indirect learning products. However, at the beginning of the course, the teacher may foresee changes likely to take place as a result of the learning cycle. These should be clearly stated and revised from time to time so as to assure the maximum benefit to the students.

The optional related activities. Optional related activities are those in which students engage solely because they want to. They are designed for the purpose of providing work for students who have completed the minimum requirements of the unit assignments and who desire to pursue their research on a topic of particular interest to them. The optional activities may take a number of forms such as problems, charts, projects, debates, notebooks, oral or written reports. They should be prepared in such a way that even the poorer students may be given an opportunity to select and work out some part of the optional work to his satisfaction and benefit.

Tentative time allotment. The tentative time allotment is a statement of the approximate time that students are to be allowed to spend on the unit. The time usually varies from one to four or five weeks.

Core activities. The core activities are the unit assignments in which most of the students are expected to engage at some time or other. The activities should provide for a minimum requirement of work although the students are free to choose how, when, and where a given task may be performed. Because of this option, a copy of all core activities should be given to each student.

Study and activity guide. The study guide is an over-all exposition of the unit. As the student does not possess a copy of the delimitation of the unit, nor of the indirect learning products, a study guide is given him so that he may at a glance separate the items which the teacher is to present through discussion and those which he is expected to derive from reading references. The guide sheet also gives information pertaining to the estimated time allotment and the schedule of tests.

Tests. Tests are a very important part of each unit assignment. It is often interesting and helpful to know at the outset of the teaching cycle what each pupil has already achieved in the area represented by the unit and its delimitation. This may be done by administering a pretest of the objective type. At the end of the learning cycle, a mastery test is given to determine the progress achieved. The use of the pretest as a mastery test at the end of the unit will give occasion to note interesting results by means of comparisons. Periodic quizzes of one type or another are necessary so that both pupils and teacher may keep informed on the progress being made.

Organization of Chapters

This report is organized into four chapters. The first chapter, the Introduction, contains the statement of the problem, the justification of the problem, the delimitation of the problem, and a discussion of terms. Chapter II outlines the procedures followed in constructing the unit. The third chapter, Improving the Teaching of Economics, sets forth Billett's exposition of the pedagogical values of the unit plan, the method of presenting the unit, the period of time allotted to the teaching of the unit, the use of the study guide and of references, and the evaluating medium. Chapter IV, Distribution of the National Income, contains a general statement of the unit, the delimitation of the unit, the incidental and indirect learning products, the core activities, the optional related activities, the students' references, and a mastery test.

CHAPTER II

PROCEDURES

A systematic procedure was followed by the writer in constructing the unit of instruction "Distribution of the National Income." The unit was prepared in the following manner:

1. Twenty college textbooks were analyzed to determine the method of presentation and the material that various authors included in the section "Distribution of the National Income."

2. A number of reference books on the history of economics were examined to give the writer a clear understanding of the total picture upon which are based the economic laws involved in the unit presented in this report.

3. Syllabi of different schools were reviewed to determine the specific and the general objectives of a course in principles of economics in order to help the writer compile a list of objectives that would conform to those of authorities in the field of economics, business education, and general education.

4. The specific goals and incidental learning products of the unit were then prepared as a guide to the selection of

materials, problems, and activities to be included in the report.

5. Courses of study were consulted and a tentative outline of the unit was prepared.

6. Students' references were selected. The selection was made on the basis of the readability of the material to be presented in this unit.

7. The delimitation of the unit in complete declarative sentences was then prepared. The delimitation which is for the teacher's use only contains the fundamental facts that must be presented and interpreted to the students during the time devoted to the presentation of the unit.

8. The core activities were organized. Specific references were selected for each core activity to assure a maximum of understanding and comprehension in a minimum of time. All students are expected to work out the core problems at some time or other during the period allotted for the teaching of the unit.

9. The optional related problems were then prepared. These problems are meant to challenge the mental capacities of the best students, as well as to permit the average students to obtain a feeling of achievement through the selection and completion of a number of these extra problems. This is one of the means by which the unit plan provides for individual differences.

10. The pretest which is to be used as a mastery test

was constructed with the questions in the test based upon the material covered in the study guide problems. The results of the test should serve to evaluate the knowledge acquired by the students in the area presented, to check weaknesses, and to review the unit covered.

CHAPTER III

IMPROVING THE TEACHING OF ECONOMICS THROUGH THE USE OF THE UNIT

Introduction

Every teacher must be concerned with teaching improvement. Teaching is not an end in itself, it is only a means to an end. The growth of the student is the end result of teaching. If the teacher is to fulfill her task effectively, he has a professional obligation to study, compare, and finally adopt the method of instruction that will bring forth the best results in the intellectual growth of his students. Studies tend to show that the teaching of economics has followed a beaten path that few teachers have dared to cross. Widespread economic illiteracy indicates that there is room for a great deal of experimenting with the different ways of handling the teaching situation in the classroom. There is no single "cure-all" in the field of improvement of instruction, but the general opinion seems to point to the term "pupil-participation."

The unit plan of instruction may be the solution to the problem of improving the teaching of economics for many teachers. It provides a variety of activities, projects, and questions that may well be adapted to the students' needs and interests. Thought-provoking in nature, the unit method of teaching is designed to arouse and maintain the interest of individuals because the assignments are geared to the level of the group. By giving the students a certain margin of freedom in their choice of activities to be performed, the unit is bound to bring about the desired results in the mental growth of the students, each according to his own intellectual capacity and eagerness to learn.

The Values of Unit Organization

Besides providing for individual differences among students, developing initiative, and creating a congenial class atmosphere, unit organization is, as Billett[1] says, "a systematic way of taking into consideration and applying with due emphasis, every fundamental educational principle which should function in every good teaching-learning cycle." Billett[2] has summarized the values of unit organization into eleven vital teaching outcomes related to some of the more important educational principles. These outcomes are as follows:

> Unit organization is concerned with helping to create situations in which pupils may find worth-while goals toward which to work. . . .

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[1]Billett, Roy O., "The Values of Unit Organization," _Fifteenth Yearbook_, Eastern Commercial Teachers Association, Philadelphia, 1942, p. 23.

[2]_Ibid._, p. 24.

Unit organization is concerned with helping pupils to direct routes to areas of experience likely to be vital and meaningful, and with providing guidance and direction while contributing to the optional development of the pupil's own power of self-direction.

Unit organization is concerned with helping pupils to engage in activities and experiences which are not only closely related to each other but also to the pupil's present levels of educative growth. . . .

Unit organization is concerned with providing for a flexibility of classroom-laboratory procedures which will allow pupils, when necessary or desirable, to begin at different places, to proceed at different rates, and to achieve different though related results, and to do this whether homogeneous grouping and special classes are or are not provided. . . .

Unit organization is concerned with providing opportunities for individual activity, for vicarious experience, and for co-operative activity. More briefly, it is concerned with securing a happy balance of individualization and socialization. . . .

Unit organization is concerned with finding out the pupil's present centers of interest and with making it possible to turn the obtained facts to the greatest possible advantage of the pupils in the ensuing teaching-learning cycle. . . .

Unit organization is concerned with providing for classroom-laboratory procedures which make it easy at least part of the time for a pupil to turn from one activity to another without interfering with the rest of the class. . . .

Unit organization is concerned with offering to the pupil reasonably explicit directions without providing him a mere recipe to be followed with a minimum of thought. . . .

Unit organization is concerned with giving each pupil as much choice as he is able to use wisely, in determining what he shall do, and how, and where. . . .

> Unit organization is concerned with providing ways and means whereby both teacher and pupils may know what they are achieving. . . .
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> Unit organization is concerned with providing for the use or application of what has been learned, in the immediate lives of the pupils, in their other classes, in their extracurricular activities, and in their out-of-school living. By the same token, unit organization is concerned that a minimum of the pupil's time and energy be spent in acquiring learning-products for which little or no significant use can be found.

Presentation of the Unit

This unit of instruction has been planned to give students opportunities to engage in creative, worth-while learning activities. The plan requires the use of a series of reference books to answer searching questions clearly and fully. The fundamental text, <u>Principles of Economics</u> by Dodd, is the source from which the core activities were developed. The students will soon discover, however, that many problems and questions will provoke further research. A collection of modern economics textbooks should be kept in the classroom where it might be easily accessible to all students at any time.

Period of Time

The time spent on the unit should be long enough to allow all the students to master the economic principles covered in the delimitation and to apply them effectively in the solution of a reasonable number of problems. Chapter IV was planned for a four-week period. The teacher will find that this time allotment will provide ample time for oral reports, debates, and discussions that may result from current economic happenings brought up in class by students.

Use of Study Guide and of References

At this level students should know how to use reference materials other than their basic textbook. A bibliography containing most of the textbooks available for college use in the field of economics will provide a wealth of informational material for the unit. All the reference material should be kept in the classroom where students will be in a position to use it. Although most of the answers to the core activities may be secured from the basic text, the student will soon realize that more comprehensive solutions will result from the intelligent organization of the viewpoints of different authors on the subject.

A guide sheet containing the optional related activities and the core activities with specific references should be given to each student. Under the guidance of the teacher, students should work to their utmost capacity; that is to say, they should be encouraged to do as many of the activities as time and ability will permit.

Evaluating Medium

The evaluating program is important in any learning situation, whether or not the unit method of teaching is used. First, it helps to determine the extent to which students have mastered principles, and secondly, it goes to the root of a successful teaching device by revealing the students' ability or inability to apply their knowledge in real life situations.

A pretest to discover what the students already know about the subject matter serves as an excellent introduction to the unit. The mastery test prepared with the present unit could well be used as a pretest and as a final examination. A comparison of scores will show interesting facts pertaining to the weaknesses as well as to the strength of the unit presented to the group. The mastery test is not intended to be the entire testing program. Short quizzes, power tests, and check-up tests may be given at any time during the work on the unit to measure comprehension, to discover obstacles, and to give the teacher an opportunity to provide for remedial work if necessary.

CHAPTER IV

DISTRIBUTION OF THE NATIONAL INCOME

General Statement of the Unit

Income is derived by the people of this country in a variety of ways. According to Dodd,[1] laborers receive wages or salaries for their services to commerce and industry; owners of property receive rent; stockholders and bondholders collect dividends or interest on their investments, while entrepreneurs accumulate profits. Young people often receive an allowance from their parents, whereas old and disabled men and women look to social security for their share of income with which to make a living. So numerous are the ways in which income is acquired, that the question may well be asked whether an explanation can be offered for this variety of ways other than the ingenuity of the individual and chance. No doubt, there is a little of both, but in a democratic economy such as that of the United States, it is possible to discover certain principles that determine the nature and the amount of income that people in different walks of life receive. In an attempt to comprehend this situation, classical philosophers,

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[1]Dodd, James Harvey, and Hasek, C. W., Economics Principles and Applications, South-Western Publishing Company, Cincinnati, 1948, p. 363.

after years of experimentation, have formulated economic laws that tend to explain the nature of distribution on the basis of return to the four factors of production: land, labor, capital, and management.

Delimitation of the Unit

<u>Introduction to the Unit</u>

1. Distribution of income is the apportionment of rights to a share of the national income among the various factors of production, i. e., land, labor, capital, and management.

2. A study of factorial distribution may give some indication of the total share going to labor, but it is the purpose of personal distribution to show the actual amount received by individual workers.

3. An analysis of land rent in your city would be one of factorial distribution, but an inquiry into the reason why your father receives a definite amount of city rent as a landowner would be one of personal distribution.[2]

4. Although this unit will deal mainly with a study of factorial distribution, personal distribution will also be considered in order to make the general economic concepts clearer and more concrete.

<u>National Income</u>

1. A right to a share of goods and services produced

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[2] *Ibid.*, p. 364

within a given time is termed income.

2. The real income of a nation is the sum total of all the goods and services produced in a country. It consists of consumers' goods and producers' goods as well.

3. Consumers' goods are those that can satisfy a want directly. Example: a pair of shoes, a coat, a loaf of bread.

4. Producers' goods are used to create consumers' goods or other producers' goods. These goods are not wanted for their own sake, but only insofar as they will contribute to the production of goods. Example: harvesters, weaving looms, cranes.

5. Money income is assumed to be the monetary measure of the amount of goods and services to which each productive agent is entitled.

6. The national income increases with demands for more goods, with more efficient means of production, and with better managerial policies.

7. The monetary value of the national income is not a true index of the actual sum of goods and services produced. The fluctuation in the purchasing power of the dollar may greatly affect the apparent size of the national income.

8. In any system of economy, goods and services are the result of productive forces; namely land, labor, and capital assembled, organized, and managed into an effective producing unit by an enterpriser.

9. It is evident that all four factors are entitled to a share of the income produced.

10. In a capitalistic economy, these shares are known as wages, rent, interest, and profits.

11. The total yearly national income in a country like that of the United States is equal to wages, rent, interest, and profits earned within that year.

12. As a man is interested in money insofar as he can exchange it for goods and services to satisfy his wants, real income is more significant than money income.

Importance of Each Factor of Production

1. Assuming that there are only four factors of production, the problem is to determine the proportion of the selling price of the product that should go to each.

2. The factors of production cannot share equally in the price of production because they are not of equal importance in the production of all goods and services. Land is the principal contributor in agricultural production, whereas capital and labor are the chief contributors in manufacturing.

3. It is the measurement of the contribution of each factor which makes the determination of the distributive shares so complex.

4. All factors of production are indispensable to the production of goods just as the four wheels of an automobile are indispensable to its usefulness. The question is, "Which wheel could the automobile do without more easily?"

RENT

Nature and Kinds of Rent

1. The payment of a sum of money at stated intervals for the use of durable goods, such as a boat, a car, an apartment, an acre of land, or a tuxedo is termed contract rent.

2. Economic rent differs somewhat from contract rent in that the former is the return derived solely from the land as a factor of production.

3. Economic rent and contract rent when stated in monetary value will not necessarily be the same, but in the long run, they will tend to coincide in price.

4. Contract rent, often called explicit rent, is determined by an agreement between the landlord and the tenant. In certain localities contract rent is a matter of custom.

5. If a landowner utilizes his own land for farming purposes, the rent on his land, although not calculated is present, and is referred to as implicit rent.

Rent on Agricultural Land

1. At the beginning of early American colonization, land was so abundant relative to population, that it was almost impossible for any landowner to collect rent.

2. With an increase of population, land in the United States as in other countries has become scarce. Competitive demand for scarce land accounts for a part of the rent attributable to the use of land.

3. The differences in the rental value of land are not

entirely due to its scarcity.

4. Varying degrees of fertility, location, or both account for the wide range in the amount of rent imputed to different parcels of land.

5. In general, the more fertile the soil, the greater the return per acre, and hence, the higher the rent for the use of the land.

6. Rent appears when all the land is under ownership and is used beyond the first or best grade.

7. The amount of rent that a farmer will pay for the use of land is limited.

8. As a rule, no one will pay for land which produces just enough to support the labor expended on that land. Land which produces more than enough to pay for labor and capital expended on the land commands this surplus as rent.

9. Location is another important factor in the determination of the rental value of agricultural land.

10. Of two equally fertile pieces of farm land, the one nearer the market will command the higher rent because since higher costs of transportation will have to be incurred in getting the products from the farther piece of land, rent of distantly located farms tends to be lower than for those close to the market.

11. Since the price of agricultural products in one market tends to be uniform, tenants on the distantly located farms will not be able to compete with those close to the market unless rental costs differ.

12. The lowest grade of land in use is called no-rent land.

13. No-rent land generally yields just enough to permit the producer to pay the wages of labor and the interest on capital. This land is often termed marginal land.

14. When the fertility of the land combined with labor and capital yields a return that exceeds the cost of labor and capital, the excess is economic rent.

15. On the superior or supramarginal land, rent is the difference in quantity of product produced on the superior parcels and that produced on the marginal land.

16. Insofar as the best grades of land are as favorably located as the inferior lands, the superior lands will be the first to come under cultivation.

17. Superior lands are cultivated more intensively than inferior lands, and it is only the appearance of diminishing returns on the better lands that leads to the more extensive use of the poorer lands.

18. Intensive cultivation is the result of the application of larger and larger amounts of capital and labor to a limited area of land.

19. When the price of agricultural commodities rises, farmers may bring poorer grades of unused land under cultivation if units of labor and capital may be applied thereon as profitably as on the better grades. This process is called extensive cultivation.

20. Robinson[3] states the law of diminishing returns as follows: "Additional amounts of any productive factor used in conjunction with a fixed quantity of other factors will yield progressively smaller increments of output beyond a certain point, in a given state of the arts."

Rent on Urban Land

1. The rent of agricultural land depends largely upon its fertility and location, whereas the rent of urban land is determined largely by location.

2. A good residential location, according to O'Hara,[4] is one that involves wholesome surroundings, nearness to schools, churches, centers of recreation, and to places of employment. It also takes into account the character of the people living in the neighborhood.

3. The more fashionable the neighborhood, the higher the rent that proprietors may hope to obtain from prospective occupants.

4. Commercial interests will pay a high rent for the opportunity to do business in the center of the city where traffic is greatest because a larger volume of business can be transacted.

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[3]Robinson, Leland Rex, Adams, John F., and Dillin, Harry L., An Introduction to Modern Economics, The Dryden Press, New York, 1952, p. 310.

[4]O'Hara, Frank, O'Leary, Joseph M., and Hewes, Edwin B., Economics--Principles and Problems, D. Van Nostrand Company, Inc., New York, 1944, p. 212.

5. In large cities certain areas become associated with particular types of business. Rent in these areas is proportionate to the expected volume of business to be transacted by the tenant.

6. Generally speaking, manufacturing establishments will not be able to pay the high rentals charged in the commercial district and will therefore occupy less central locations.

7. The nearer to the heart of the city, the greater the urban rent.

8. In large cities the height of the buildings indicate the intensity of use of desirable sites of land, as the amount of capital and large labor force indicate the intensity of use of agricultural land.

9. As the return from business activities approximate the cost of production plus rent, the buildings decrease in height, and less desirable locations are selected at lower rental costs.

10. The rentals paid for the use of buildings cover not only the ground rent but also the interest on capital invested in the buildings, together with administrative costs, taxes, repairs, alterations, and provisions for obsolescence.

11. Certain phenomena may bring about a shortage of residential buildings. In such cases, building rents will rise beyond the amount necessary to cover ground rents, interest, and other charges. As a result, the capital invested in buildings will reap a capital-rent, in addition to ordinary interest.

12. Alfred Marshall[5] employed the term quasi-rent to indicate the income received from residential buildings, manufacturing plants, and commercial centers, because the return to land was partly a return to capital investment.

13. When the city becomes overbuilt, rents will fall off and the income will at times be insufficient to cover the interest on new investments.

Rent on Mineral Land

1. By mineral land is meant natural resources, such as coal seams, oil deposits, and silver mines.

2. The return to the owners of mineral lands is termed royalty.

3. When the owner of a coal mine rents out his land for productive purposes, he will calculate his rental revenue, royalty, as a fix amount per ton extracted. The amount will usually be the difference between the cost of labor, interest, and managerial activities and the selling price of the coal.

4. Since coal may be mined at various rates per unit of time, such as a year, some coal lands will yield a much larger annual rental return than others, depending on the productive activities of the tenants.

Changing Rent Level

1. Rent is not a fixed charge. It will vary along with wages, interest, and with changing economic conditions.

[5]Marshall, Alfred, Principles of Economics, 8th Edition, 425-6, as reported in O'Hara, op. cit., p. 213.

2. The growth of the population, improved standards of living, and technological developments lead to greater demand for goods and services.

3. A greater demand for goods and services forces commodity prices up and in turn leads to the utilization of poorer lands which pass from the submarginal to the marginal land category.

4. An increase in the supply of labor and capital will cause the extensive margin to be pushed farther out, because the increased demand makes it profitable to bring still poorer land into use. When this condition occurs, rent will appear on what was formerly marginal land, and rents will be higher on the better lands because of the greater difference in yield from them in comparison with the new marginal lands.

5. The general tendency for rents to increase as population grows or as standards of living improve may be encountered to some extent by any development in technology that leads to the less intensive use of land already being utilized. Example: The Boulder Dam.

6. Technological developments may be as extensive as to force government subsidies or crop limitation programs in order to reduce agricultural production and to prevent the decline of rents from ruining prosperous farmers.

7. In the long run, the increase or the decrease of rental returns will be determined by the more effective use of land already under cultivation.

Rent and Land Value

1. Land is wanted for what land will yield.

2. The value of land is determined by rent.

3. When a man says that a parcel of land is worth ten thousand dollars, he is actually discounting to the present the future returns of this land.

4. Where it is expected that the present rental of land will continue to be paid indefinitely into the future, the value of the land is represented by the amount of money which, when invested at the current rate of interest, will yield an annual income equal to the rental. This reasoning is called capitalization of rent.

5. Assuming that the current rate of interest on investments is 5 per cent, an acre of land that commands a rental return of five dollars will be worth one hundred dollars. (To arrive at the capitalized value of the property in question the annual rental, $5, is divided by the interest rate .05.)[6]

6. The value of a coal mine may be calculated in a similar manner after consideration has been given to three important factors: (a) the probable total volume of coal that can be extracted in each acre; (b) the probable rate of extraction per year; and (c) the royalty per ton.

The Unearned Increment of Land

1. In the case of both agricultural land and urban land,

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[6] *Ibid.*, p. 214

rent increases as the population grows in number and in wealth.

2. Rent may increase because the owners take special care to improve the usefulness of their land.

3. For the most part, an increase in rent is generally the result of a corresponding increase in demand for land, rather than the positive activities of the landlords.

4. When a rise in rental values is the result of an increased demand created by society, the rent increment is said to be unearned.

5. According to Henry George[7] and other social reformers, landowners are not entitled to retain the portion of unearned increment of land values.

6. George contended that all unearned increment on land should be taken over by the state by means of a tax.

7. Under this single-tax theory, George claimed that the amount thus collected would be sufficient to finance all the functions of government, and all other taxes could be abolished.

8. The single-tax theory has not been too popular in the United States, because it offers a serious threat to the right of private property which is a fundamental institution to private enterprise.

9. Inheritance, estate, and income taxes have been applied to overcome the grosser injustices which occur when

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[7]George, Henry, Progress and Poverty, as reported in Froman, Lewis, A., Principles of Economics, Richard D. Irwin, Inc., Chicago, 1946, p. 463.

individuals receive the unearned increment without performing any useful duty in exchange for the unearned increment.

WAGES

Nature of Wages

1. Wages may be defined as this part of the national income belonging to those who supply productive labor.

2. Salary, honorarium, stipend, fee, and commission are other terms used to indicate payments for a particular type of service performed.

3. Wages may be paid in money or in "kind." The latter is called the truck system of wage payment. Example: When hired farm help is given a share of the crop in payment for his labor, he is said to have been paid in "kind."

4. A self-employed laborer is entitled to a return which is generally referred to as wages of management, implicit wages, or imputed wages.

Methods of Wage Payments

1. The unit-of-time method of wage payment is the one that is based on a flat rate to be paid weekly, monthly, or yearly regardless of productivity.

2. The piece-rate method of payment is based on the amount of work performed. Under this system the employer passes some of the production responsibility upon the worker.

3. Certain people consider the piece-rate method of payment as a reward for initiative, while others see in it an

unjust penalty for slow and inefficient workers. Management considers the system as an incentive for better quality and for a greater quantity of work.

4. High hourly wage rates do not necessarily result in large payments especially when the hours of work are limited.

<u>Importance of Wages</u>

1. Froman[8] reports that in the United States, the return to labor is about twice as great as all the other returns taken together.

2. In recent years wages have accounted for approximately two-thirds of the national income.

3. Interest, dividends, and rents, taken together, make up 15 per cent of the national income; the remaining 17 per cent goes to individual enterprisers as profits.

4. Annual wage indexes may reveal significant information pertaining to wages when they are considered in relation to the national income, the purchasing power of the dollar, and commodity prices.

5. When considered in themselves, indexes of any kind are meaningless.

6. The purchasing power of wages refers to the quantity of goods and services that can be purchased with the money sums received as wages.

7. "Real wages" is the term used to refer to what wages will buy, as distinguished from "money income," the amount

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[8] *Ibid.*, p. 467.

of pay actually received less taxes.

8. Where workers are strongly organized, wages are the result of collective bargaining between the representatives of the union and the representatives of management.

<u>Labor Markets</u>

1. The supply and demand of labor is referred to as the labor markets.

2. Labor markets are as numerous as employment opportunities that are not in direct competition.

3. The labor market is divided into five groups according to Taussig:[9] the unskilled workers, the semiskilled, the skilled craftsmen, the white-collar workers, and the professional class.

4. Within each group of workers, wages tend to be somewhat uniform. This is especially true in the lowest group of laborers.

5. As one passes from the skilled to the professional group, differences in wage payments within the group tend to widen; in the highest group one can find the individual who receives a hundred thousand dollars yearly to manage a large firm, and also the proprietor of a small manufacturing industry who reaps an income of four or five thousand dollars.

6. Localities, sex, race, job characteristics have an appreciable influence on differential wage rates.

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[9] Taussig, F. W., <u>Principles of Economics</u>, The Macmillan Company, New York, Vol. II, 1939, pp. 235-37.

7. The potential labor supply includes all persons capable of economic effort.

8. Of the 143 million population of the United States, approximately 100 million represent the potential labor supply and only 64 million are gainfully employed, reports Dodd.[10]

9. Fifteen million workers are unionized. Forty-five million unorganized workers face the market for employment as individuals.[11]

Determination of Wages

1. The price of labor cannot be as nicely determined by the forces of supply and demand as are the prices of wheat or corn.

2. Custom occupies a more important place in regulating the price of labor than in regulating the price of commodities.

3. Pleasant surroundings or the prestige that make certain positions attractive may draw so large a number of workers that wages tend to become stabilized. Very often the personal satisfaction derived from such labor is sufficient compensation for the relatively low wages obtained by teachers, nurses, and owners of small businesses.

4. Wages that have become traditional tend to remain unchanged.

5. If the marginal productivity of labor decreases, the employer will either have to lower wages, or improve laboring

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[10] Dodd, *op. cit.*, p. 386

[11] *Ibid.*, p. 385

tools, or go out of business.

6. On the other hand, if marginal productivity of labor increases and the employees become aware of the fact, they will strike for higher wages.

7. Another reason why wages do not respond readily to the forces of supply and demand is that labor must be delivered in person.

   a. Bricks may be shipped long distances or they may be stored by the owner in the hope of obtaining higher prices.

   b. Labor is a perishable commodity. It cannot be stored up to await higher wages. "A day's work lost is gone forever." This condition strengthens the bargaining power of employers against employees.

8. If one assumes conditions of free competition in the labor market, wages will tend to equal the net marginal product of the worker.

9. Labor demand is a derived demand, springing from consumers' desire for more and more goods.

10. The effort of the worker to change his standard of living cannot affect economic laws. Income is derived from production, and consequently, something must be produced if it is to be divided.

11. Universal restriction on production cannot raise the standard of living.

12. In a competitive market, the demand for labor tends to correspond closely to the marginal productivity of the

workers; i. e., each firm tends to hire laborers at a given wage up to the point where the value of the worker's marginal product is equal to his wage.

Effect of Union Organizations on Wages

1. Labor unions are cooperative organizations that seek, through collective action, to enhance the bargaining power of the individual worker, and through its superior resources to obtain better working terms than the worker would be likely to secure by himself.

2. One of the principal objectives of labor unions is to monopolize the labor supply, in an attempt to develop greater bargaining power for the benefit of the worker.

3. Where labor organizations are strong enough, wages may be raised above the marginal productivity of the worker.

4. A rise in wage rates results very often in unemployment, a greater demand for state aid by the unemployed, and consequently, higher taxation.

5. Well-organized labor unions may bring greater pressure on management to improve working conditions, to adopt new methods of production, and thereby increase the productivity of the workers. Increased productivity then justifies a demand for higher wages.

Wage Theories[12]

1. According to the market price theory of wages, salaries are the price of labor as revenue is the price of a

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[12] Dodd, op. cit., p. 391-94.

commodity. Therefore, as the price of commodities tends to become stabilized by the forces of supply and demand, wages should also be determined by the fluctuations of the labor supply and demand.

2. According to Thomas Robert Malthus, the increase of population and the automatic population checks would always keep wages at the subsistence level. This concept gave rise to the subsistence theory of wages.

a. A subsistence wage was the only possible wage that unskilled laborers could ever hope to obtain, because Malthus believed that man's productive power could not increase to any great extent.

b. Leading economists in the United States have challenged the subsistence wage theory of Malthus. With an increase in population came technological developments in the field of production, increased labor productivity, higher wages, and finally, a higher level of living for the ordinary worker.

3. When wages are determined by the marginal productivity of the last worker, the marginal theory of wages is said to be in effect.

4. This abstract marginal productivity theory of wages, whether called by its name or not, is applied when the resourceful employer seeks the best way to use the agents at his disposal.

5. According to ethical principles, the only valid wage theory is the standard-of-living theory as interpreted in the

light of commutative justice.

6. Commutative justice is an ethical principle that requires society to give every man what belongs to him.

7. Used as a basis for determining wages, the standard-of-living wage theory would provide not only a minimum standard-of-living wage for a full day's work, but would also provide adequate amounts to make allowance for medical care, education, religious observance, and charities. Such a norm would require careful planning in detail for classes of working families, and frequent re-estimation as prices change.

INTEREST

Nature of Interest

1. In everyday language, interest means the price that is paid for the use of money or credit.

2. Economic interest is that portion of the product of industry attributable to the use of capital, as distinguished from the return attributable to the use of land and labor.

3. Gross interest includes economic interest and a margin to cover payments for risks and expenses incidental to the making of a loan.

4. The amount of payment that will induce savers of funds to lend their money to needy borrowers is termed net interest.

5. Except for similar loans, there is no "market" rate of interest because there is not only one market, but several markets for funds.

6. The rate of interest on loanable funds tends to vary, depending on the following considerations:

a. the supply of loanable funds

b. the demand for loanable funds

c. the credit standing of the borrower

d. the character of the borrower

e. the risk involved in the loan

f. the length of time for which the loan is desired

7. The normal rate of interest is a hypothetical rate which would prevail over a long period of time if risks were eliminated from the loan, if the value of money remained constant, if competition were perfect, and if all loans were used to increase capital equipment.[13]

Supply of Loanable Funds

1. The supply of loanable funds depends partly upon savings, and partly upon the creation of loanable funds by commercial banks.

2. If all income were spent for consumption goods by people receiving it, an important source of loanable funds would disappear.

3. Individual saving is largely determined by habit, size of income, age, sex, race, profession, and marital status.

4. Corporation saving is usually the most important source for the accumulation of loan funds for investment.

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[13] James, Clifford L., New Outline of the Principles of Economics, Barnes and Nobles, Inc., New York, 1948, p. 189.

5. Financial institutions such as banks, insurance companies, and building and loan associations facilitate individual savings, increase the opportunities to save, and reduce the risk of losing funds.

6. Saving means a postponement of consumption.

7. To induce many individuals to abstain from some consumption in the present, one must offer them the possibility of a larger amount of consumption goods in the future.

8. Not all saved income is invested. Money hoarded is not productive.

<u>Demand for Loanable Funds</u>

1. The demand for loan funds is based partly on their productivity in the purchase of capital equipment.

2. The main source of demand for loan funds are as follows:

   a. Entrepreneurs will borrow money to increase the use of capital equipment, as long as the revenue from the sale of the products is sufficient to pay depreciation charges and the interest on the loan.

   b. Government demand for funds is not closely related to the net marginal productivity of the capital, as the capital equipment secured with the funds is often destroyed in warfare.

   c. Consumers' demand for funds is largely of the consumption loan type. Real estate loans do not fall within this classification.

3. The rate of interest that the entrepreneur is willing to pay is limited by the profits which he expects to obtain from the capital goods which he purchases with the funds borrowed.

4. Entrepreneurs may obtain part of their required capital by borrowing money saved and invested in life insurance, securities, and banks.

Functions of Interest

1. Interest serves to ration the supply of savings between production loans and consumption loans.

2. Interest serves to put new capital into the hands of those who can use the money effectively.

3. Interest rates serve to bring about a balance between the willingness of receivers to save, and the need of capital users to extend their operations.

4. Interest regulates the actual growth of business by making it possible for the businessmen to borrow or by making it impossible for them to afford an expansion.

PROFIT

Economic Concept

1. Profit is the amount of gain that is left to the owner of a business after allowances have been made for rent, labor, and interest.

2. The economist considers profit as a reward earned by

an enterpriser for assuming the uncertainties of successful operation.

Types of Profits

1. Profits may be divided into three main classes; namely, accounting profits, normal profits also called net income, and pure profits.

2. Profit to the businessman has a very definite meaning; it is that which is left after all the expenses of operating the business have been paid.

3. Accounting profit is a residue calculated by deducting from gross receipts all costs of production, taxes, insurance, labor, selling, depreciation, and other similar items.

4. Normal profit is the return to the entrepreneur necessary to keep his energies, skills, and organization intact and in operation. Failing to receive this amount, the entrepreneur will go out of business.

5. If the owner is self-employed, if he owns the land upon which the business operates, and if he has funds invested in his enterprise, normal profit includes labor return, property rent, and loan interest called imputed returns. These returns must be accounted for before pure profits appear.

6. Pure profits may occur because unforeseen changes occur, and because the economy is not perfectly competitive.

7. Unforeseen changes may arise from weather conditions, innovations, and changes in the demand for goods produced.

Sources of Profit

1. Managerial efficiency which implies skill in directing current operations, in solving production problems, and in formulating business policies is the only internal source of profit.

2. Profits may arise from a number of external factors:

a. An exceptionally cold winter which adds to the gross receipts of a company selling heating units will enhance profits. Weather uncertainty which may be responsible for losses may also bring about greater profits.

b. Changes in the cost of raw materials without an equivalent change in selling prices will affect profits.

c. Changes in demand brought about by product differentiation, advertising, or other causes may influence profits.

d. The introduction of a new product may change the profit picture of a company.

Relation of Profit to the Business Cycle

1. In a period of rising prosperity, interest on capital, and profits are the first to be affected.

2. The great depression of the thirties proved that a recession may set in even when profits are high. Profits are not, strictly speaking, indices of prosperity.

<u>Monopoly Profits</u>

1. To the extent that customers buy according to brand, the demand for the branded article places the producer in a partial monopoly position.

2. There are few complete monopolies.

3. The extent of partial monopoly is much greater than is commonly realized.

4. The type of monopoly with which people are concerned is the one in which the producer monopolizes the source of supply.

   a. Monopoly of natural resources eliminates competition, places the customer entirely dependent upon the producer, and freezes both production and prices.

   b. In a capitalistic economy, the government has always been concerned about checking monopolies that tend to be detrimental to the general public.

<u>Profit Motive and the Common Good</u>

1. The functions of ownership must be performed in any system of economy, capitalistic, socialistic, or communistic.

2. Freedom of enterprise in a capitalistic economy encourages individual initiative, innovations, private decisions, and risk taking. In a capitalistic economy, the man who possesses the skills, the natural ability, and who plans scientifically has an opportunity to become a successful enterpriser.

3. Just as labor must be paid wages, incentives must be

provided to foster entrepreneurial initiative. Entrepreneurs take the chance of loss, and the only compensating factor that will prompt them to face such an uncertainty is the alternative chance of making a profit.

4. In a totalitarian economy, customers' wants are not considered by producers. Productive resources are owned and allocated according to governmental directives, and prices are fixed not by demand or supply, but by an arbitrary decision of rulers.

Incidental Learning Products

1. To develop an understanding of the importance of labor as a productive agent.

2. To develop an appreciation of a competitive economy as compared with other forms of economy.

3. To develop a knowledge and an understanding of the fundamental laws of distribution which affect every person in the nation.

4. To develop the ability to make practical applications of learned principles to life situations in the community, and in the world.

5. To foster in the students a desire to become better informed citizens.

6. To show the importance of being an informed citizen in order to vote more intelligently on various economic issues.

7. To develop clear thinking and an understanding of the economic problems which confront society.

8. To develop skill in the use of the library and independent work.

9. To develop initiative by having each student working on his own in selecting and doing assignments on optional related activities.

10. To develop skill in writing reports and presenting them orally before the class.

11. To develop the ability to participate intelligently in group discussion.

12. To develop the ability to solve problems logically and scientifically.

13. To learn to consider all sides of a question.

14. To develop a critical attitude in the reading of newspapers and periodicals.

15. To develop an interest in economic radio programs.

The Unit Assignment Sequence

Tentative Time Allotment: Five weeks should be allotted to the study of the present unit. As regular economics classes, on the college level, meet three times a week, fifteen discussion periods should be sufficient for a thorough coverage of the material presented in this unit.

Introductory Activities: The first period should be devoted to a review of the fundamental economic concepts already learned. The purpose of this review is to foster a better understanding of the new economic principles to be introduced in the present unit. Half of the first period should be used to administer the pretest. The second half of this period should be devoted to a discussion of the importance of wages to the workingman, rental revenues to landlords, interest to loan agencies, and profits to businessmen.

Study and Activity Guide: Each student should be given a separate copy of the core activities and of the optional related activities. Students should then be directed to read all the problems and to begin their work at any point of particular interest to them. Definite dates should be set for the completion of different parts of the assignment.

The key to the references appears after the student's bibliography.

Core Activities

1. List the sources from which the people of the United States draw their income. D. 363

2. Distinguish between the real income and the money income of a nation for a given period of time. D. 363

3. Consult the dictionary, your text, and other reference books for the correct definition of the following terms. Compare each concept with the definition of wages given in your

textbook.

commission	stipend
honorarium	fee
rent	dividend

4. Two students are discussing the meaning of distribution of income. One maintains that there is only one connotation to the term; the other, that there are two. Explain to them the different types of income distribution and illustrate each one. D. 364

5. In a capitalistic economy, such as that of the United States, what credentials are required of anyone planning to open a grocery store? D. 365 In a communistic economy? D. 365

6. Through what agencies is the national income distributed in a capitalistic economy? D. 366 Compare this method with that used by a totalitarian economic system.

7. Economists say that in a capitalistic economy, production and distribution are like two sides of a sheet of paper in that one cannot exist without the other. Explain the implication of this statement. D. 366

8. Compare the economic and the popular meaning of land? D. 367

9. What are the fundamental characteristics of land? Illustrate each by a concrete example. D. 367

10. Explain the term "quasi rent." Fa. 405

11. List the types of uncertainty that a farmer must face before his agricultural products are ready to be marketed. D. 369

12. What is an entrepreneur? D. 369

13. Is the manager of a First National Store an entrepreneur? The president of the New England Telephone and Telegraph Company? The president of the Ford industry? Justify your answers.

14. How do the indirect taxes affect the national income?

15. Do foreign investments affect the national income? If so in what manner?

16. List the advantages and disadvantages of a capitalistic system of distribution? D. 375

17. Compare and contrast a capitalistic and a totalitarian system of income distribution. D. 376-77.

18. Why is Russia so hostile to the idea of capitalism? D. 376-77.

19. Explain the law of diminishing returns and apply it to a concrete case with which you are familiar. D 373-74

20. Use the following terms in a sentence that will show that you have a clear understanding of their economic meaning:

income	workless income
national income	earned income

21. What is your concept of the "iron law of wages"? O.183

22. Who were the Physiocrats? In what century did they live? What was their contribution to the field of economics especially to the theories of distribution of wealth? O. 183

23. Why do bricklayers in the United States receive higher wages than university professors? T. 132

24. Why do office girls who receive salaries that are lower than domestic workers prefer to work in offices rather than take advantage of higher wages in domestic employment? T. 132

25. Illustrate the principle of intensive cultivation of superior land by an original example. R. 400

26. Give a thorough explanation of the reasons for extensive cultivation of poor land, and indicate its effect on the rental revenue of superior land. Fa. 398-400

27. Would the amount of rent that you would have to pay be a decisive factor if you planned to open a grocery store?

28. Define the concept of "economic rent." D. 396

29. Describe the effects of intensive cultivation of farm land on economic rent. D. 401

30. Discuss the nature of "no-rent lands." Is it possible for the owner of no-rent lands to cultivate his farm without incurring a loss? D. 399

31. Does urban rent resemble agricultural land rent?

How is urban rent determined? Fa. 401-3

Do the principles of economic rent apply to urban rent? Explain D. 402-3

32. What is a royalty? D. 403

Compare royalties from the use of mineral land with profits. D. 403

33. How important is rent in our economy today?

34. From the World Almanac, determine the percentage of national income that was allocated to interest last year? Compare these figures with those of the last five years.

35. What are the main factors that are responsible for rent fluctuation? D. 404

36. If you were to rent a suitable location for a bakery, what factors would influence your choice? D. 402

37. What is meant by capitalization of rent? Illustrate. D. 213

38. What is the origin of the term "unearned increment"? How is it related to Henry George's "single-tax" theory? O.214

39. A friend of yours who knows that you are taking economics inquires about the real effect of union organization on wages. Can you explain it to him clearly and fully? D. 391

40. Indicate what you think might be the effect of the adoption of the "single-tax" theory on the right of personal property?

41. Distinguish between contract wage and economic wage. D. 379

42. What are the various terms used to indicate a remuneration for work and what is their exact connotation? D. 378

43. What is meant by the "truck system of wage payment"? O. 231

44. How is the labor market divided? D. 380

45. Illustrate what is meant by the marginal productivity of labor. O. 232, D. 382

46. In a competitive economy, such as that of the United States, who is responsible for the demand for services and labor? D. 381

47. Show how the marginal productivity of labor affects wages today. O. 232

48. How would perfect competition in the labor market affect wages today? O. 233

49. Why did the economic marginal productivity law have no influence on wages paid to WPA and CCC workers? D. 383

50. What is the economic concept of the following terms: D. 385-90

supply of labor
potential labor supply
gainfully employed
productively employed

51. Show the relationship between the four terms mentioned in the preceding question.

52. Apply the subsistence wage theory of Malthus to an actual situation of your choice. D. 392

53. What was the economic principle upon which Robert Malthus based his subsistence theory of wages? D. 392

54. Is the perspective of earning a return necessary to induce saving? J. 184, F. 521, T. 22, O. 217

55. How was Malthus wage theory challenged? D. 393

56. What is meant by the standard-of-living theory of wages? D. 393, N. 159

57. What three important factors must be considered in determining a fair wage payment theory? N. 171

58. Is the standard-of-living theory of wages an idealistic theory? Do you believe that it could be made to work effectively? Illustrate. N. 164, 172

59. How can the viewpoints involved in the above mentioned considerations be co-ordinated to determine a just wage? N. 190

60. Show the significance of commutative justice in determining the value of labor. N. 177

61. What determines the value of labor?

62. Upon whom does the obligations of social justice fall? N. 178

63. How could you differentiate between interest as a return to capital investment, and interest as a payment for a loan? F. 510

64. Explain the meaning of capital in each of the following terms:

a. The capital debt of a firm
b. The capital stock of a corporation
c. R. T. Sullivan, Capital
d. The capital instruments of production

65. R. V. Dow tells you that he has borrowed five thousand dollars from a friend for a period of three months. The only condition to the loan is that Dow must pay his friend the market rate of interest on the loan for the period of use. Explain what is meant by the market rate of interest. F. 527

66. Explain the following statement: "Interest is human impatience crystallized into a market rate." F. 515

67. Supposing that you needed to borrow money, would you prefer to borrow on the market rate of interest or on the normal rate of interest? Give reasons for your choice. J. 189

68. Outline the various factors included in ordinary interest rates. D. 412

69. Explain the variations in the rate of interest in different countries and for different investments. T. 38-40

70. What is the meaning of hoarding? Explain the effect of hoarding on the supply of loanable funds; on interest rates.

71. List the functions of interest. O. 226

72. What distinction exists between accounting profits, normal profits, and pure profits? R. 446

73. How would the following factors affect profits: R. 458.

a. Taxes
b. Luck
c. Efficiency
d. Costs
e. Rising prices
f. Monopoly

74. List the main sources of profit and discuss each one briefly. Give concrete illustrations. R. 457

75. Your friend tells you that prosperity will last just as long as the majority of the leading industries operate at a profit. Repeated losses in these same industries, he believes, are sure to be followed by a period of recession or depression. What is your opinion on the subject? D. 433-34

76. Under what circumstances are accounting profits more important than pure profits? When are the latter more important? R. 446-48

77. Do entrepreneurs earn profits, or is profit only a reward? D. 432

78. Ryan says that "necessary profits" are just as important as interest on money loans and wages for labor. Do you agree? Explain your answer.

79. What is the meaning of "wages of management"? R. 442-43

80. How does product differentiation affect profits? D. 443

81. Is advertising a significant means of increasing profits? D. 443

82. How do complete monopolies affect the general welfare? D. 443

Optional Related Activities

The following activities are meant to provide for individual differences. Students should be encouraged to study these problems and to solve as many as time and interest will permit. Most of the questions are thought-provoking in nature, and will provide the students with an opportunity to apply the new economic principles encountered in the unit studied.

1. Prepare a report showing the following information:
    a. The origin and reasons of rent control in the United States.

b. The effect of rent control on rental returns.

c. The effect of rent control on the value of real estate.

d. The effect of rent control on tenants and landlords.

2. Make a brief report on any one of the following topics:

a. Absentee ownership of farm land in the West

b. The population problem in India

c. Abandonned farms in the United States

3. Make a chart showing the percentage of the national income allocated to each of the four factors of production in any one year. Interpret your chart in a brief report.

4. Illustrate how interest on a productive loan comes into existence. T. 11

5. Make a book report of W. A. Hamilton's <u>The Control of Wages</u>.

6. From the following topics choose the affirmative or the negative point of view and discuss thoroughly:

a. The government should regulate wages

b. Labor is the sole creator of values

c. People work for only one reason, that is, to earn money.

7. Review the use of the term "profits" in four current newspaper or magazine articles. Compare the usage of the term with the economists' interpretation of profits.

8. Write an essay explaining what you understand by the following statement: "Wages come down by the elevator and go up by the stairs."

9. Make a list of the practical values that may be derived by a businessman who possesses a functional understanding of the basic economic laws of (a) rent, (b) marginal utility, (c) diminishing returns, and (d) interest.

10. In 1930 Benito Mussolini in an allocution delivered to the Italian people from his balcony in the Piazza Venezia said: "Italy must export human beings or burst." Discuss the meaning of his statement and its significance upon the economic welfare of his country.

11. List the various motives besides profits that might induce a businessman to engage in industrial activities.

12. Discuss the policy of crop restriction from the following points of view:

a. the general welfare

b. the unemployed

c. the farmers

d. the principle of social justice

13. Before the war, rents on farm lands in Korea and China amounted to one half of the crop.

a. What is the fundamental reason for so high an economic rent?

b. Could the situation have been improved without the war?

14. Write an essay stating whether or not in your opinion laborers should be denied the right to strike. Support your point of view by sound ethical reasons based on the effects of strikes on employers and employees.

15. The real estate inheritance tax is based on George's unearned increment of land value theory. Prepare a short report showing the truth or falsity of this statement.

16. Compare the views of Saint Thomas Aquinas on the subject of interest with that of any other well-known economist. Be sure to indicate the reasons for the change of attitude over the years on the payment of interest on loans.

17. Prepare a chart showing the influence of the last depression on (a) the levels of living in the United States, (b) wage scales.

18. Secure the financial report of any company and make a graphic presentation of their profit trends for the last ten years.

19. List the reasons why John Honner might borrow money. What are the different institutions in your community from which Mr. Honner might borrow?

20. Make a list of the unions represented in your city. From the literature put out by these unions, and from current newspapers determine:

a. The extent to which unions have organized labor;
b. any collective bargaining in which they have engaged within the last six months;

c. what dues their members pay;

d. how the wages of their members compare with wages in unorganized trades.

21. Visit any commercial bank in your community and make a list of the different types of loans that they extend. Report also on the rates of interest charged, and the methods of repayment.

22. "Some industries are forced out of business operations because of overexpansion." Explain the possible meanings of this statement. List the reasons that might have contributed to overexpansion.

23. Write a brief report on any one of the following economists:

Henry George	David Ricardo
John Stuart Mills	Robert Malthus
Adam Smith	Alfred Marshall

24. Write to the Department of Commerce in Washington and ask for a report on the division of the national income for the last ten years. From the material received, make a chart illustrating the amount or the percentage allocated to the various factors of production each year since 1942.

25. Write to the Federal Reserve Bank of Boston and ask them to send you material that will help you determine the fluctuation of interest rates on productive and consumptive loans in recent years.

26. Prepare an oral report of Oswald Von-Breuning's discussion of a "just wage" as presented in the <u>Reorganization</u>

<u>of Social Economy</u>.

27. Prepare a report comparing the factors that determine the rental returns of the following:

a. agricultural land

b. manufacturing sites

c. commercial sites

d. dwelling locations

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V. Von Nell-Breuning, Reorganization of Social Economy

Mastery Test

Part I -- <u>Multiple Choice</u>

Directions: Encircle the letter preceding the answer which correctly completes the statement.

1. The hope of profits is necessary to induce

    a. assumption of risk
    b. superior management
    c. good fortune
    d. effective monopoly

2. Income expressed in terms of commodities and services that it will buy is called

    a. money income
    b. national income
    c. real income
    d. earned income

3. The risk of uncertainty in directing and organizing an industry is borne directly by

    a. the manager of the company
    b. the president of the industry
    c. society
    d. the entrepreneur

4. Money income and real income when considered over a period of time tend

    a. to move in the same direction
    b. to apply only to organized labor groups
    c. to move in opposite direction
    d. to remain the same

5. In a totalitarian economy the risk of production is borne by

    a. the people
    b. the government
    c. the dictator
    d. the entrepreneur

6. The work that the housewife performs in her home as compared with the work of the factory laborer is called

a. marginal labor
b. productive labor
c. unproductive labor
d. non-union labor

7. The contract rate of interest on money borrowed from commercial banks is the same as

a. the economic rate
b. the accounting rate
c. the normal rate
d. the agreed rate

8. The return which corresponds to the income the entrepreneur would receive if he worked for someone else and loaned his capital and land to others is called

a. undivided profits
b. surplus
c. interest
d. wages

9. The remuneration of the tenant farmer who is paid with a portion of the products produced on the farm he cultivates is called

a. commission
b. wages
c. wages in kind
d. real wages

10. The definition which refers to the amount by which an acre of land is superior to no-rent land in a given market is that of

a. contractual rent
b. implicit rent
c. explicit rent
d. economic rent

11. Robert Malthus is remembered in the economic world because of his famous theory of wages which was challenged by the United States and proved fallacious. The theory is called

a. the marginal theory of wages
b. the subsistence theory of wages
c. the natural level theory of wages
d. the population theory of wages

12. Wage increase won by one union against one firm in an industry may easily cause an increase in

a. the demand for labor
b. production
c. strikes
d. unemployment

13. The method by means of which wages can be most closely adjusted to the volume of output of the individual laborer is termed

a. piece work
b. profit sharing
c. time wage
d. welfare work

14. A wage theory which places a greater stress on the demand side as opposed to the supply side is the

a. bargaining power theory
b. standard of living theory
c. marginal productivity theory
d. subsistence theory

15. Which one of the following causes might result in a rise in the rent of apartment and dwelling houses in a city?

a. an increase in population
b. the opening of a new industry in the city
c. a low rent housing project
d. a shutting down of several industries

16. The division of income among the factors of production is called

a. consumption
b. distribution
c. production
d. exchange

17. Economic rent is based upon the following factor

a. the average productivity of land
b. the marginal productivity of land
c. the total productivity of land
d. contractual agreement

18. The payment for the use of mineral land is termed

a. return on mineral land
b. rental receipt
c. royalty
d. revenue

19. The single-tax theory is associated with the name of the great economist

a. Robert T. Malthus
b. Adam Smith
c. John Stuart Mills
d. Henry George

20. The right to use land is allocated by means of

a. price mechanism
b. pre-emption
c. gift
d. distribution

21. Which one of the following might cause a decrease in interest rates:

a. a depression
b. a war boom
c. an increase in the demand for consumption loans
d. an increase in the demand for productive loans

6?

22. Which one of the following should not be classified as payment made for the service of labor?

a. the commission earned by a salesman
b. a fee paid to a notary public for recording a deed
c. a dividend paid the owner of preferred stock
d. a salary paid to an office worker

23. Economic interest arises as the result of

a. too much borrowing
b. the productivity of capital
c. too little saving
d. growing population

24. Land that will not pay the cost of cultivation is referred to as

a. marginal land
b. no-rent land
c. submarginal land
d. supramarginal land

25. A loan that creates a means whereby it can be repaid is termed a

a. call loan
b. self-liquidating loan
c. consumption loan
d. marginal loan

Part II -- True or False

Directions: Insert the letter T in front of each statement which is true. Insert the letter F in front of each statement that is false or partly false.

_____ 1. The best lands in a nation are always the first to be used.

_____ 2. The density of population has a direct influence upon the size of economic rent.

_____ 3. The law of diminishing returns applies to manufacturing production as well as to farm cultivation.

_____ 4. Land is a basic factor of production supplied by nature.

_____ 5. The payment of a sum of money for the use of a tuxedo is called contract rent.

_____ 6. When a land owner utilizes his own labor for farming purposes, he cuts his cost of production because there is no rental cost on his land.

_____ 7. The choice of a location to open a filling station depends entirely upon rental cost.

_____ 8. Savings would occur even though there were no interest rates.

_____ 9. Savings is essential in the creation of capital.

_____10. A drop in the general price level with no change in money wages is equivalent to an increase in real wages.

_____11. Organized labor in the United States generally favors the development of profit-sharing systems.

_____ 12. A large increase in immigration will not affect the level of wages because the United States is a progressive country.

_____ 13. Product differentiation and extensive advertising lead to complete monopoly.

_____ 14. When the price of agricultural commodities rises, intensive cultivation results.

_____ 15. Business depressions cannot begin when industrial profits are high.

_____ 16. If all the land had the same fertility and location, there would be no rent.

_____ 17. Wages are the only incentive that influences a man to work.

_____ 18. Pure profits should not exist at any time in a perfectly competitive economy in which no unforeseen changes are likely to occur.

_____ 19. Labor and capital must face uncertainties, but only the entrepreneur may lose on account of them.

_____ 20. The market rate of interest is the rate that individuals pay when they borrow money from a loan agency.

_____ 21. Technological improvements in agriculture are favorable to rising rent levels.

_____ 22. Money profits are those that are held back by companies and used for expansion purposes.

_____ 23. Labor is the sole creator of values.

_____ 24. Economic rent on agricultural land varies inversely with the demand for farm products.

_____ 25. Distribution is useful because it shows the allocation of costs to the factors of production.

_____ 26. A coal mine is neither land nor capital.

_____ 27. Economic rent is not a cost of production but a result of production.

_____ 28. If the government took all economic rent from land owners, the price of farm products would be lower.

_____ 29. Net accounting and net economic profits coincide in all cases.

_____ 30. The interest rate serves as an allocating device for capital.

Part III -- Matching

Directions: For each expression in Column I, write in the answer column the number of the most appropriate word or phrase in Column II.

Column I	Answers	Column II
1. Real income	___	a. Centralizes production decisions
2. National income	___	b. Amount allocated to labor as a factor of production
3. Quasi-rent	___	c. Ethical demand in terms of wages
4. Profits	___	d. Hypothetical rate of interest
5. Truck system of wages	___	e. Return allocated to land
6. Piece rate wage	___	f. What the money received as wages will buy
7. Economic wage	___	g. Wages based on an agreement
8. Contractual wage	___	h. Sum total of all goods and services performed within a given period
9. No-rent land	___	i. Encourages initiative and maintains competition
10. Factorial distribution	___	j. Return on mineral lands
11. Rent	___	k. Assumes the risk of business
12. Royalty	___	l. Reward for risk taking
13. Productive labor	___	m. Pertains to the general welfare
14. Unproductive labor	___	n. Amount allocated to labor on the basis of quantity produced
15. Normal rate of interest	___	
16. Market rate of interest	___	
17. Entrepreneur	___	
18. Manager		
19. Private enterprise		
20. Totalitarian enterprise		

Column I

21. Managerial efficiency
22. Product differentiation
23. Social justice
24. Commutative justice
25. Just wage
26. Consumers' goods
27. Unearned increment
28. Tools
29. Supramarginal land
30. Producers' goods

Answers — **Column II**

____ o. Marginal land

____ p. Increase in the value of property caused by a growth of community

____ q. Wages paid in kind

____ r. Apportionment of rights to national income

____ s. Branded products

____ t. Not entitled to pure profits unless he is the owner

____ u. A source of profit

____ v. Economic capital

____ w. Work of housewives in their home

____ x. Houses, furniture, automobiles

____ y. Rent on urban lands

Key to Mastery Test

Part I

1 - a	9 - c	18 - c
2 - c	10 - d	19 - d
3 - d	11 - b	20 - a
4 - c	12 - d	21 - b
5 - b	13 - a	22 - c
6 - c	14 - c	23 - b
7 - d	15 - b	24 - c
8 - c	16 - b	25 - b
	17 - b	

Part II

1 - F	11 - F	21 - F
2 - F	12 - F	22 - F
3 - T	13 - F	23 - F
4 - T	14 - T	24 - F
5 - T	15 - F	25 - T
6 - F	16 - T	26 - F
7 - F	17 - F	27 - T
8 - T	18 - T	28 - F
9 - T	19 - F	29 - F
10 - T	20 - F	30 - T

Part III

a - 20	i - 19	r - 10
b - 7	j - 12	s - 22
c - 25	k - 17	t - 18
d - 15	l - 4	u - 21
e - 11	m - 23	v - 28
f - 1	n - 6	w - 14
g - 8	o - 9	x - 26
h - 2	p - 27	y - 3
	q - 5	