

VEBLER, INSTITUTIONALISTS, GALBRAITH AND BEHAVIORAL ECONOMICS ECO54 UDAYAN ROY

These questions are about the American Institutional School and focuses on Thorstein Bunde Veblen (1857-1929) and John Kenneth Galbraith (1908-). These questions are from chapter VIII of *The Worldly Philosophers* and chapter VIII of *New Ideas from Dead Economists*. The questions on behavioral economics are from my lecture notes on the topic.

1. During the post-Civil War era in which American capitalism was dominated by the so-called robber barons, most American economists were _____ in their attitude to American capitalism. Thorstein Veblen's ideas _____ with this attitude.
 - a. Uncritical; agreed.
 - b. Critical; agreed.
 - c. Uncritical; disagreed.
 - d. Critical; disagreed.
2. _____ put their focus on society's laws, ethos, and institutions for economic insight.
 - a. Keynesians.
 - b. Institutionalists.
 - c. Marginalists.
 - d. Monetarists.
3. In contrast with the views of the _____, _____'s principal insight was that economic behavior is based on deep-buried irrationality and not on reasonable common sense.
 - a. Institutionalists; Alfred Marshall.
 - b. Marxists; Joseph Schumpeter.
 - c. Marginalists; Thorstein Veblen.
 - d. Institutionalists; Kenneth Arrow.
4. According to _____, an individual's utility from a purchase depends partly on what his/her neighbors will think of the purchase. This leads to the phenomenon of _____.
 - a. Thorstein Veblen, the leisure class
 - b. Karl Marx, commodity fetishism
 - c. John Kenneth Galbraith, dependence effect
 - d. Thorstein Veblen, conspicuous consumption
5. According to _____, those who own property are admired by society and those who acquire property without having to work for it are admired even more. This leads to the phenomenon of _____.
 - a. Thorstein Veblen, the leisure class
 - b. Karl Marx, commodity fetishism
 - c. Thorstein Veblen, conspicuous consumption
 - d. John Kenneth Galbraith, dependence effect

6. According to _____, the reason why _____'s theory of class conflict and revolution would not come true was that workers consider their own work as less "dignified" and seek not to rid themselves of a superior class but to climb up to it.
- Alfred Marshall, Karl Marx.
 - Thorstein Veblen, Karl Marx.
 - J.A. Hobson, Karl Marx.
 - Karl Marx, Thorstein Veblen.
7. According to _____, engineers could rescue capitalism from the irrationalities and superstitions of consumers and businessmen because engineers, due to the nature of their work, clearly understood the principles of rationality.
- Schumpeter.
 - Marx.
 - Veblen.
 - Wesley Clair Mitchell.
8. According to Thorstein Veblen, the leisure class became rich by
- Force and cunning and took no part in the actual production of wealth by sweat or skill
 - Hard work in commerce
 - Hard work in agriculture
 - Inheritances received from previous generations
9. According to Thorstein Veblen, the leisure class was _____ by other social classes because the leisure class had become rich _____.
- Admired; by the use of force
 - Admired: through solid hard work.
 - Hated: by the use of force
 - Hated; through solid hard work.
10. The continued existence of irrational instincts in modern people that Thorstein Veblen highlighted can be explained as follows: Certain instincts—such as the instinct to admire ruthless and cruel people—were an evolutionary advantage in primitive societies as people with such instincts were more likely to survive. The instincts that were advantageous during primitive times are still with us today—despite being no longer necessary—because the economy changes faster than our biological instincts do. This view of Veblen can be traced to:
- Plato
 - Charles Darwin
 - Isaac Newton
 - Adam Smith
11. In 1950, the economist Harvey Leibenstein introduced the concept of "Veblen goods." For such goods,

- a. The demand curve may be *upward rising*. People buy *more* when prices rise because their friends and neighbors will admire their ability to buy expensive things.
 - b. The demand curve may be *upward rising*. People buy *more* when prices rise because higher prices are an indicator of superior quality.
 - c. There is minimal advertising, because common people are usually unable to afford Veblen goods.
 - d. Durability tends to be low. People buy such goods because the purchase of throwaway goods signals affluence to one's friends and neighbors.
12. Veblen's view of labor unions can be summed up as follows:
- a. Rather than aiding the common workers, unions raise wages for their members by stepping on the backs of nonunion employees
 - b. Labor unions fight for all workers by resisting the oppressive policies of managers
 - c. Workers secretly admire their unscrupulous and exploitative bosses. As a result, labor unions remain unable to resist capitalist exploitation
 - d. Labor unions fight for nonunion workers—at times at the expense of their own members—because they want the nonunion workers to join unions
13. According to _____'s concept of the *Dependence Effect*, consumers' decisions are based on corporate advertising and not on a rational assessment of their own needs.
- a. Thorstein Veblen.
 - b. Karl Marx.
 - c. Wesley Clair Mitchell.
 - d. John Kenneth Galbraith.
14. According to _____, society allocates less of its resources to the production of public goods (as opposed to private goods) than is ideal, because public goods are never advertised and their importance is, consequently, under appreciated.
- a. John Kenneth Galbraith
 - b. Thorstein Veblen
 - c. John Maynard Keynes
 - d. Karl Marx
15. _____ question the conventional assumption that firms always seek to maximize profits. For example, _____ has argued that owners (including stockholders) no longer run the firm but delegate authority to paid managers who pursue their own goals such as enhancing their own prestige by increasing the size of the firm, whether or not that is the profitable thing to do.
- a. Members of the Public Choice School; James Buchanan.
 - b. Institutionalists; John Kenneth Galbraith.
 - c. Monetarists; Milton Friedman.
 - d. Institutionalists; Thorstein Veblen.

16. Both Thorstein Veblen and John Kenneth Galbraith emphasized the systematic and predictable irrationality of some of our economic decisions. Consequently, they can be regarded as forerunners of
- Game theory
 - Econometrics
 - Behavioral economics
 - Monetarism
17. In terms of the tools used by economists, what new tool did behavioral economics add?
- Controlled laboratory experiments on dead animals
 - Controlled experiments on human choices in laboratory situations
 - Differential calculus
 - Hypnosis
18. Behavioral economists' experiments have demonstrated the existence of
- Anchoring, whereby the decisions of people are influenced—with no awareness of the influence—by information that ought to be irrelevant.
 - Loss aversion, whereby a given loss has a much greater (negative) effect than the (positive) effect of an equal gain
 - Framing, whereby the same information has predictably different effects on people's decisions if presented in a different way
 - All of the above
19. Prospect theory is behavioral economics' challenge to the standard marginalist theory of human behavior. This theory was proposed by
- Herman Heinrich Gossen
 - John Kenneth Galbraith
 - Daniel Kahneman and Amos Tversky
 - Thorstein Veblen
20. Behavioral economists' experiments have demonstrated the existence of
- Dynamic inconsistency, whereby people are willing to make sacrifices when those sacrifices are in the distant future but are unwilling to make sacrifices when the future eventually arrives
 - Altruism, whereby people give voluntarily to others without having any reason to expect something back in return
 - Endowment effect, whereby the value that people place on an object increases when they possess it
 - All of the above