



# PHILIPPINE ECONOMICS

By

**ANDRES V. CASTILLO, PH.D.**

Former Executive Secretary, National Economic Council; Former Dean,  
College of Business Administration, University of Manila;  
Professorial Lecturer in Economics, University of the  
Philippines and P.C.C.B.A.; Director, Secur-  
ities Market Department, Central  
Bank of the Philippines;  
author, "Principles of  
Economics"

Manila, Philippines

1957

## PREFACE

This book is intended primarily for students who are just beginning to study economics. The method of approach and presentation has taken into consideration the relatively simple background and limited experience of the reader. The discussion has been designed to combine the principles of economics and description of economic activities which, to my mind, would facilitate the teaching of the subject. I have endeavored to state the fundamental economic principles in a simple language and weave them with concrete problems that tie up with the experience of the students and what is going on in the community. To do this, the orthodox approach of most textbooks has been modified or abandoned altogether and economic analysis has been largely taken out of its academic setting. Fundamental principles cannot be mastered by the uninitiated if they are presented and discussed apart from the everyday problems of our economic society, and although the students can memorize many of these principles, they would be unable to grasp their meaning correctly if they are dissociated from the actual facts.

In the course of several years' experience in teaching the elementary course in economic principles and problems, I have observed that students use various economic terms in a sense different from their accepted scientific meaning. The important economic terms are defined in a nontechnical language when they are first used in the text. I have found out that many students seem to think that because they could repeat many popular economic principles they are already familiar with them. Many erroneous notions could be unlearned and corrected even in an elementary course in economics.

I have been guided in the preparation of this book by the *Brief Outline of the Course in Economics for the Fourth Year Classes in Secondary Schools* prepared by the Board on Textbooks. The discussion of the price system, monopoly, government and business, money, banking and credit, the principles of international trade, cooperative enterprise, different economic sys-

tems and economic reconstruction and planning may be more extensive than what is called for, but parts of the chapters that treat of these topics may be omitted if time does not permit their inclusion in the course. I have tried to cover as wide a field as possible with a view to affording students sufficient background to understand current economic controversies and public discussion of economic questions and thus promote "economic literacy," so that they may be better prepared to perform their duties and assume their responsibilities as citizens. Economic problems continually press for solution, and only a clear understanding of these problems and the underlying principles involved would enable our citizens to contribute intelligently and effectively to the making of a better economic society.

I have included at the end of every chapter a number of study aids, such as a list of economic terms to be defined or explained, review questions, problems for class discussion, topics for further study and investigation, and a glossary. The experienced and resourceful teacher should be able to stimulate thought and test the memory and reasoning power of the students with these aids. The references for further reading are divided into two groups, one for the student and the other for the teacher. These books or publications are recommended to broaden the background of the students and to acquaint the teacher with other points of view.

The writing of this book has been made less difficult with the assistance of colleagues and the technical consultants of the National Economic Council whose reports were used as source material for some of the chapters. I wish to express my gratitude to Secretary Antonio de las Alas, first Chairman of the National Economic Council, for giving me all the opportunities to undertake researches on Philippine economy while acting as economic and financial adviser in the Department of Finance. I am especially indebted to the former Chairman of the National Economic Council, the late President Manuel Roxas, under whom I had the privilege and great pleasure to serve in the task of drafting the plans for an enduring Philippine economic structure, and whose leadership, keen mind, broadmindedness and appreciation for solid scholarship have encouraged and inspired me in this tedious work. Standard

books on economics for the high school and college have been consulted in the preparation of this book and are included in the references. I also wish to acknowledge my indebtedness to Dr. Leon Ma. Gonzales, Director of the Bureau of the Census and Statistics, who willingly extended to me the facilities of his office; to Professor Faustino Bugante, for editorial aid in the preparation of the manuscript for the press; and to Dean Encarnacion R. Lozada, who helped in the arduous and wearisome task of proof-reading. I have been aided in one way or another by numerous friends, but space does not permit detailed acknowledgment of the courtesies I have received from them.

Finally, the fact cannot be overemphasized that the points of view or the opinions expressed in this work are mine alone and do not necessarily reflect those of the Central Bank of the Philippines.

ANDRES V. CASTILLO

Manila, Philippines  
August, 1949.

# CONTENTS

CHAPTER	PAGE
<b>PREFACE</b> .....	vii
<b>UNIT ONE—THE STUDY OF ECONOMICS</b>	
<b>I. OUR ECONOMIC SOCIETY</b> .....	2
THE NATURE OF ECONOMICS: Economics Defined. Economics is a Social Science. Fundamental Economic Concepts. Goods. Utility. Wealth. Production. Consumption. Income. FACTORS OF PRODUCTION: Land. Labor. Capital. The Enterpriser. THE EVOLUTION OF ECONOMIC SOCIETY: Direct Appropriation Economy. Pastoral Economy. Agricultural Economy. The Town Economy—the Handicraft System. National Economy. The Industrial Revolution. Overlapping of the Stages of Economic Development. DEVELOPMENT OF PHILIPPINE ECONOMY: Economic Life During the Pre-Spanish Period. Economic Development During the Spanish Time. American Period. Present Economy of the Philippines. CHARACTERISTICS OF MODERN ECONOMIC SOCIETY: The Institution of Private Property. Freedom of Enterprise. Freedom of Contract. Competition. Cooperation. GOVERNMENT'S ROLE IN ECONOMIC LIFE.	
<b>UNIT TWO—HOW PRICES ARE DETERMINED</b>	
<b>II. THE PRICE SYSTEM</b> .....	23
IMPORTANCE OF PRICE: Everybody is Interested in Price. Value and Price. Production and Price. FACTORS DETERMINING PRICE: Price Fixed in the Market. Demand and Supply. DEMAND AND PRICE: Demand Defined. The Law of Demand. Utility and Demand—The Law of Diminishing Utility. Marginal Utility. Income and Demand. Elastic and Inelastic Demand. Study of Demand Important to the Enterpriser. SUPPLY AND PRICE: Supply Defined. Supply and Stock. The Law of Supply. The Costs of Production and Price. Kinds of Costs. DETERMINATION OF MARKET PRICE: Demand and Supply Schedules. The Determination of Market Price. Bargaining and Competition. Perfect Competition not Always Existing. Interrelation of Demand, Supply and Price. NORMAL PRICE: Meaning of Normal Price. Market Price and Normal Price. OTHER ASPECTS OF PRICE: Customary Price. Prices of Goods That Can be Substituted. Price of Goods with Joint Costs.	

CHAPTER	PAGE
CHARACTERISTICS OF THE PRICE SYSTEM: Lack of Uniformity in Market Price. Interrelation of All Prices in the Economic System.	
<b>UNIT THREE—LABOR AND ITS PROBLEMS</b>	
<b>III. LABOR AND WAGES</b> .....	<b>47</b>
THE MEANING OF LABOR: Labor Defined. Mo- tives for Labor. Labor and Population. Malthusian Law of Population. The Malthusian Law of Population as Applied to the Philippines. Internal Migration of Population. Filipino Emigration. Migration of Asiatics into the Philippines. The Philippine Immigration Act. The Labor Force of the Philippines. Vocational Edu- cation and Labor. THE WAGE SYSTEM: Wages De- fined. Kinds of Wages. Nominal Wages and Real Wages. Free Income of Labor. The Standard of Living and Wages. THE DETERMINATION OF WAGES: Different Theories of Wages. Demand for Labor. The Supply of Labor. Marginal Productivity of Labor. Bar- gaining and Wages. The Limits of Wages. Wages and the National Income.	
<b>IV. LABOR PROBLEMS</b> .....	<b>66</b>
LABOR ORGANIZATION: Labor Unions. Growth of Labor Unions in the Philippines. The National Com- mission of Labor. The National Commission of Pea- sants. The Congress of Labor Organizations (CLO). The National Peasants' Union (PKM). Aims of Labor Unions. Collective Bargaining. The Company Union. LABOR DISPUTES: Strikes. Picketing. Boycotts. The Closed Shop. Sabotage. Retaliation by the Em- ployers. The Lockout. The Black List. Labor Spy. "Yellow-Dog" Contracts. Injunctions. Methods of Setting Industrial Disputes. The Department of Labor in the Settlement of Labor Disputes. The Court of Industrial Relations in the Settlement of Industrial Dis- putes. Labor-Management Advisory Board. UNEM- PLOYMENT: Meaning of Unemployment. Causes of Unemployment. Effects of Unemployment. Remedies for Unemployment. LABOR LEGISLATION: Constitu- tional Provision. Labor Laws in the Philippines. The Workmen's Compensation Act. Regulation of Child Labor and Employment of Women. Hours of Work. Minimum Wages. The Philippine Rice Share Tenancy Act. SOCIAL INSURANCE.	

# CONTENTS

xiii

CHAPTER

PAGE

## UNIT FOUR—CAPITAL, BUSINESS ORGANIZATION AND PROFITS IN BUSINESS ENTERPRISE

### V. CAPITAL AND INTEREST ..... 94

THE IMPORTANCE OF CAPITAL IN PRODUCTION: Capital Indispensable in Production. Modern Production is Roundabout. The Capitalists. Capital Goods and Money. Land and Capital. Kinds of Capital. THE ACCUMULATION OF CAPITAL: How Capital is Formed. Hoarding and the Accumulation of Capital. Financial Institutions and the Accumulation of Capital. Depreciation of Capital. INTEREST: The Meaning of Interest. Why Interest is Paid. The Rate of Interest. Interest as Part of the Costs of Production. HOW THE RATE OF INTEREST IS DETERMINED: Interest as a Price. Demand for Loans. Demand for Loans by Enterprisers. Governments also Borrow Money. Borrowing for Consumption. Supply of Loans. Reasons for Saving. Savings of Corporations as a Source of Loans. Banks as Sources of Loans. Demand and Supply of Loans Determine the Rate of Interest. Different Rates of Interest. Capitalization and Interest. HIGH RATES OF INTEREST IN THE PHILIPPINES: Usury. Is There Lack of Capital in the Philippines? Lack of a Well Organized Money Market.

### VI. BUSINESS ORGANIZATION ..... 112

THE MEANING OF BUSINESS. INDIVIDUAL PROPRIETORSHIP: The Small Businessman. Advantages. Disadvantages. THE PARTNERSHIP: Partnership Defined. Advantages. Disadvantages. THE CORPORATION: Corporation Defined. The Charter of a Corporation. Advantages of the Corporation. Disadvantages. The Capital of the Corporation. Corporate Securities: Stocks. Bonds. The Management of a Corporation. ABUSES AND DANGERS OF THE CORPORATE FORM OF BUSINESS: Dishonesty of Promoters. Stock-Watering or Overcapitalization. Dishonesty of the Management. Payment of High Salaries and Bonuses. Absentee Ownership. The Securities and Exchange Commission. The Growth of the Corporation in the Philippines. THE COOPERATIVE ASSOCIATION: The Cooperative as a Form of Business Organization. Features of the Cooperative

CHAPTER	PAGE
Association. Advantages and Disadvantages of Co-operative Associations. CAUSES OF BUSINESS FAILURES: Poor Business Methods and Practices. Dishonesty and Fraud as a Cause of Business Failure. Keen Competition and Lack of Capital. Gambling, Personal Extravagance and Sickness. Business Depression as a Cause of Business Failure.	
<b>VII. PROFITS AND RISKS IN BUSINESS ENTERPRISE</b> .....	<b>130</b>
THE PROFIT MOTIVE IN BUSINESS: Profits Defined. Profits Guide Production. Profits and Useless Goods. Money Making and Service. Profits and Technical Efficiency. Profits and Politics. Profits and Public Welfare. RISKS IN BUSINESS ENTERPRISE: Natural Risks. Changing Demand, Changing prices. Risks Resulting from Wars. Personal Risks. REDUCTION OF RISKS: Reduction of Risks by Insurance. Insurable and Noninsurable Risks. Advance Contract. Hedging. Business Forecasting. DETERMINATION OF PROFIT: Gross Profits. Pure Profits. Pure Profits not Always Present in a Business Enterprise. CAUSES OF DIFFERENCES IN PROFITS: Profits in Different Industries. Exceptional Business Ability and Profits. Meeting Risks Successfully and Profits. Luck and Profits. Predatory Activities and Profits. CONTROL OF PROFITS: Fair Profits and Excessive Profits. Taxation on Excess Profits.	
<b>UNIT FIVE—LAND SETTLEMENT AND LAND TENURE</b>	
<b>VIII. LAND UTILIZATION AND SETTLEMENT</b>	<b>149</b>
LAND RESOURCES OF THE PHILIPPINES: Total Area. Topography. The Climate. THE OWNERSHIP OF LAND: Constitutional Provision. The Public Domain. Disposal of the Public Domain. The Friar Lands. METHODS OF DISPOSING THE PUBLIC DOMAIN: How may Public Lands be Acquired. Homestead. Sale of Agricultural Lands. Lease of Agricultural Lands. Predominance of Small Landholdings. Advantages and Disadvantages of Small Landholdings. LAND SETTLEMENT: Land Settlement and Redistribution of Population. Agricultural Colonies. THE NATIONAL LAND SETTLEMENT ADMINISTRATION: Objectives: Kinds of Settlers. Duties and Obligations.	

# CONTENTS

XV

CHAPTER	PAGE
tions of Settlers. Aid Given to Settlers. Conveniences and Free Services Given to Settlers. Financing the Settlement Project. Other Projects of the National Land Settlement Administration. THE RURAL PROGRESS ADMINISTRATION: Organization of the Rural Progress Administration. The Buenavista Farmers' Cooperative Association. Purchase of Landed Estates. CONSERVATION OF NATURAL RESOURCES: The Importance of Conservation. Soil Conservation. Conservation of Forests. Conservation of Mineral Resources. Conservation of Animal Life. Conservation of Water Resources.	
<b>IX. LAND TENURE AND LAND RENT</b> .....	<b>176</b>
SYSTEMS OF LAND TENURE: Peasant Proprietary System. The Plantation System. The Rent or Inquilino System. The Aparceria or Kasama System. The Tenant-Servant System. The Clearing System. Distribution of Farms by Tenure of Farm Operator. Reduction of Farm Tenancy. THE LAW DIMINISHING RETURNS: Statement of the Law of Diminishing Returns. Diminishing Returns in Mining. Diminishing Returns and Increasing Costs. Proportion of Factors. LAND RENT: Rent Defined. Economic Rent and Commercial Rent. How Economic Rent Arises. Marginal Land. RENT AND PRICES: Rent and Price. Rent and the Price of Land. Unearned Increment. The Single Tax on Land. LAND RENT IN THE PHILIPPINES: High Rents in Crowded Provinces. No Rent in Unopened Regions. Land Speculation.	
<b>UNIT SIX—DEVELOPMENT OF OUR GENETIC AND EXTRACTIVE INDUSTRIES</b>	
<b>X. AGRICULTURAL AND ANIMAL PRODUCTION</b> .....	<b>197</b>
GENETIC AND EXTRACTIVE INDUSTRIES: Extractive Industries. Genetic Industries. PRODUCTION OF FOOD CROPS: Food Supply. Rice. Problems of the Rice Industry. Corn. The National Rice and Corn Corporation. The Rice and Corn Production Commission. Minor Staple Food Crops. Cassava. Vegetables. Fruits and Nuts. Beverages. Self-sufficiency in Food Supply. Subsistence Farming. Family Self-Sufficiency in Food. EXPORT CROPS: Sugar. Production. Relationship Between Centrals and Plant-	

ers. Investments. Problems of the Sugar Industry. The Sugar Rehabilitation and Readjustment Commission. Coconut Production—The Coconut Industry in Philippine Economy. Products from the Coconut. Problems of the Coconut Industry. The National Coconut Corporation (NACOCO). Abaca Production — The Place of Abaca in Philippine Economy. Abaca Products. Methods of Production. Problems of the Abaca Industry. The National Abaca and Other Fibers Corporation (NAFCO). Tobacco Production—The Place of the Tobacco Industry. Tobacco Products. Problems of the Industry. The National Tobacco Corporation. AUXILIARY CROPS: Cotton. Flax. Ramie. Silk. Sisal. Maguey. Rubber. Derris. Kapok. Wheat. Other Crops. ANIMAL PRODUCTION: The Raising of Draft Animals. Meat Supply. Dairy and Dairy Products. Poultry and Game. Improvement of Stock. Establishment of Modern Slaughterhouses.

## XI. AGRICULTURAL PROBLEMS ..... 249

AGRICULTURAL CREDIT: The Credit Problem of the Small Farmer. The Agricultural Bank of 1908. Agricultural Credit Cooperative Associations. The Small Farmers' Loan System. The Rice and Corn Fund. The Philippine National Bank. The Agricultural and Industrial Bank. ESTABLISHMENT OF FARMERS' COOPERATIVES: Farmers' Attempt to Sell Their Products. Organization of Farmers' Cooperatives. Activities of Farmers' Cooperatives. Government Control. IMPROVEMENT OF AGRICULTURAL PRODUCTION: Soil Survey. Construction of Irrigation Systems. Agricultural Experiment Stations. Agricultural Extension and Service Stations. Agricultural Diversification. Mechanization of Agriculture. Farm-to-Market Roads. FOREIGN MARKET FOR AGRICULTURAL PRODUCTS.

## XII. MINING, FORESTRY AND FISHING ..... 267

MINING INDUSTRY: Nature of the Mining Industry. The Place of Mining in the National Economy. Use of Machinery. IMPORTANT MINERALS: Gold and Silver. Coal. Petroleum. Iron. Chromite. Manganese. Copper, Lead and Zinc. Minor Minerals. Non-metallic Minerals. FORESTRY: Forest Resources of the Philippines. Kinds of Forest. Lumbering. Place of the Industry in the National Economy. Trade in

# CONTENTS

xvii

CHAPTER

PAGE

Lumber and Timber. Minor Forest Products. Rattan. Cinchona. Almaciga. Manila Elemi. Cutch. Turpentine and Resin. Firewood. Charcoal. Chewing Gum Substitutes. FISHING: Fishing as a Genetic and Extractive Industry. Place of the Fishing Industry in the National Economy. Fish Resources. Minor Sea Products. Fishing Methods. Fish Culture. Fish Preservation and Canning. Improvement of the Fishing Industry.

## UNIT SEVEN—INDUSTRIAL DEVELOPMENT OF THE PHILIPPINES

### XIII. MANUFACTURING INDUSTRIES ..... 300

COTTAGE INDUSTRIES: Prevalence of the Handicraft System of Manufacturing. Weaving. Hat and Mat Weaving. Making Shoes, Slippers and Wooden Shoes. Manufacture of Rattan and Wooden Furniture. Salt-Making and the Manufacture of Bagoong and Patis. Pottery. Weaving of Baskets and Sawali. Making of Rugs, Doormats, Cushions, Hammocks and Slippers out of Abaca. Manufacture of Handbags and Fancy Articles. Financing Cottage Industries. Limitations of Cottage Industries. Solution to the Problems of Cottage Industries. Fields of Cottage Industries. DIVISION OF LABOR OR SPECIALIZATION: Forms of Specialization. Advantages and Disadvantages of Specialization. Limits of Specialization. Localization of Industry. LARGE-SCALE PRODUCTION: Large-scale Production and Modern Industry. Meaning of Large-scale Production. Advantages of Large-scale Production. Decreasing Costs and Large-scale Production. FACTORY INDUSTRIES: Manufacture of Refined Sugar. Coconut Oil. Desiccated Coconut. Manufacture of Cigars and Cigarettes. Manufacture of Cotton Cloth. Embroideries. Wines and Liquors. Alcohol. Cement. Cordage and Twines. The Footwear Industry. Butter and Vegetable Lard. MINOR FACTORY INDUSTRIES: Fish and Fruit Canning. Soft Drinks. Hat Industry. Cutch. Pearl Buttons. Soap. Matches. Paints and Varnishes. Candy and Confectionary Industry. Shellcraft. Motion Picture Industry. Other Manufacturing Industries.

### XIV. INDUSTRIALIZATION OF THE PHILIPPINES

INDUSTRIES THAT MAY BE DEVELOPED: Me-

329

tal Industries. Chemical Industries. Expansion of the Cotton Textiles Industry. Rayon Textiles. Jute Textiles. Manufacture of Pulp and Paper. Manufacture of Wallboards. Manufacture of Veneer and Plywood. Charcoal and Wood Distillation. Slack Barrel and Keg Industries. Salt, Ceramics Industry. Glass Manufacture. Food Canning and Preservation. Industrial Utilization of Animal By-Products. PROBLEMS OF INDUSTRIALIZATION: Factors Favoring Industrialization. Factors Retarding Industrialization. The National Development Company. Power. The Aim of Industrialization in the Philippines. The Government Enterprises Council. SCIENTIFIC RESEARCH AND INDUSTRIALIZATION.

#### UNIT EIGHT—TRANSPORTATION AND COMMUNICATION

<b>XV. TRANSPORTATION, COMMUNICATION AND PUBLIC UTILITIES</b> .....	<b>352</b>
THE IMPORTANCE OF TRANSPORTATION: Economic Development and Transportation. Social Effects.	
LAND TRANSPORTATION: Motor Transportation. Railroad Transportation. Bus and Street Car Transportation. City Trucking Service.	
INTERISLAND AND INLAND SHIPPING: Development of Water Transportation. Lighthouses and Buoys. Coastwise Ports. Navigable Rivers. Coastwise and Inland Shipping. Inspection of Vessels. Training of Sailors.	
OCEAN TRANSPORTATION: Tonnage of Vessels Engaged in Foreign Trade. Ports of Entry. Port and Terminal Facilities. Establishment of a Merchant Marine.	
AIR TRANSPORTATION: Development of Air Transportation. Limitations of Airplane Transportation.	
COMMUNICATION: The Postal Service. Telegraph, Telephone and Radio. Electric Communication with Foreign Countries. Radio Broadcasting. Television.	
PUBLIC UTILITIES: Industries Considered as Public Utilities. Reasons for Government Regulation. The Public Service Commission.	
VALUATION AND RATES: Original Cost Principle. Reproduction Cost Principle. Prudent Investment Principle. Present Value Principle. What is a Fair Return on the Investment?	
GOVERNMENT OWNERSHIP OF PUBLIC UTILITIES.	

## CONTENTS

xix

CHAPTER

PAGE

### UNIT NINE—MONOPOLY AND GOVERNMENT REGULATION OF BUSINESS

#### XVI. MONOPOLY AND BUSINESS COMBINATION ..... 379

THE NATURE OF MONOPOLY: Monopoly Defined. Monopoly and Big Corporations. Monopoly in the Philippines. Kinds of Monopolies. How Monopoly Price is Determined. MONOPOLISTIC COMPETITION. TYPES OF BUSINESS COMBINATION: Horizontal Combination. Vertical Combination. Diagonal Combination. Circular Combination. METHODS OF EFFECTUATING BUSINESS COMBINATION: Simple Agreements. Pools. Trusts. The Holding Company. Complete Consolidation—Merger and Amalgamation. Trade Associations. ABUSES OF MONOPOLIES: Price Cutting. Political Corruption. Monopoly Price as a High Price. LIMITATIONS OF MONOPOLY: Potential Competition. Use of Substitutes. Limitation of Managerial Capacity. Government Intervention. Monopoly and Agriculture.

#### XVII. GOVERNMENT AND BUSINESS ..... 394

GOVERNMENT CONTROL AND REGULATION OF BUSINESS: Regulation of Rates and Prices. Control of Business Combination in Restraint of Trade. Control of Security Issues. Issuance of Licenses, Certificates of Public Convenience and Necessity. Government Control of Agriculture. Government Control of Banking and Financial Institutions. Control of Foods and Drugs. Regulation through Taxation. GOVERNMENT AID TO BUSINESS: Government Aid to Agriculture. Government Aid to Trade and Commerce. Aid to Industry. The Tariff as an Aid to Business. GOVERNMENT OWNERSHIP AND OPERATION OF BUSINESS: Constitutional Provision. Government Ownership Abroad. The Postal and Telegraph System. Government in Agriculture. Government in Banking. Government in Transportation. Government in Industry. The Government in the Real Estate Business. Total Investments of the National Government. Net Worth and War Losses of Government Corporations. Fields of Business for Government Ownership. ADVANTAGES AND DISADVANTAGES OF GOVERNMENT OWNERSHIP: Advantages of Government Ownership. Disadvantages

of Government Ownership. Status of Government Ownership in Foreign Countries. Status in the Philippines.

## UNIT TEN—OUR MONEY AND CREDIT ECONOMY

### XVIII. OUR MONETARY SYSTEM ..... 416

WHAT IS MONEY?: Money Defined. Characteristics of Money. Coinage and Printing of Money. Legal Tender. FUNCTIONS OF MONEY: Principal Functions of Money. Medium of Exchange. Standard of Value. Standard of Deferred Payments. Store of Value. Reserve for Banks. KINDS OF MONEY: Early Forms of Money. Gold and silver. Token Money. Paper Money. Fiat Money. Deposit Currency. MONETARY SYSTEM: Meaning of Monetary Standard. The Gold Standard. The Silver Standard. Bimetallism. Gresham's Law. Paper Standard. THE MONETARY SYSTEM OF THE PHILIPPINES: The Monetary Standard of the Philippines before World War II. The Monetary Unit. Act No. 4199. The Gold Reserve Act of 1934 and Philippine Currency. Advantages and Disadvantages of the Gold Exchange Standard. The Monetary System During the Japanese Occupation. Present Monetary System of the Philippines. The International Monetary Fund. MONEY AND PRICES: The Value of Money. Index Numbers. The Quantity Theory of Money. Criticism of the Quantity Theory. The Income Theory. FLUCTUATIONS OF THE PRICE LEVEL: Inflation. Deflation. Reflation. Effects of Price Fluctuations. STABILIZATION OF PRICES: The Tabular Standard. The Commodity Reserve Currency. The Commodity Dollar. Managed Currency. 100 per cent Money. Price Control.

### XIX. BANKING AND CREDIT ..... 460

FUNCTIONS OF BANKS: What is a Bank? Services of Banks. Deposit Function? Loan and Discount Function. Note Issue Function. Remittance and Collection Function. Fiduciary Function. Other Functions. KINDS OF BANKS: Commercial Banks. Savings Banks. Trust Companies. Agricultural Banks. Investment Banks. Other Kinds of Banks. OUR CREDIT ECONOMY: Credit Defined. Kinds of Credit. Another Classification of Credit. Advantages and Disadvantages of Credit. Credit Instruments. HOW BANKS GRANT

# CONTENTS

xxi

CHAPTER

PAGE

CREDIT: How Businessmen Borrow from Banks. Security for Loans. Bank Deposits — Deposit Currency. Bank Reserves. Purposes of Bank Reserves. Clearing House. CENTRAL BANKING: Central Bank Defined. Functions of Central Banks. Issue of Notes and Management of the Currency System. Control of Credit. Rediscounting and Lending Function. Hold the Reserves of Banks. Fiscal Agent of the Government. Clearing Function. Elastic Currency. THE INTERNATIONAL BANK. THE BANKING SYSTEM OF THE PHILIPPINES. REGULATION OF BANKING: Bank Failures. Government Regulation of Banking.

**XX. BUSINESS CYCLES** ..... 494

FLUCTUATIONS IN BUSINESS ACTIVITY: Business Cycle Defined. Universality of Business Cycles. Lack of Similarity of Business Cycles. PERIODS OF THE BUSINESS CYCLE: The Period of Prosperity. The Period of Crisis. The Period of Depression. The Period of Recovery. CAUSES OF BUSINESS CYCLES: Theories Based on Changes in the Natural Phenomena. Psychological Theory. Maladjustment Theory. Other Theories of the Business Cycle. EFFECTS OF BUSINESS CYCLES: Unemployment. Human Effects of Depression. Reduced Public Revenues. REMEDIES FOR THE BUSINESS CYCLE: Stabilization of Production. Planning of Public Works. Control of Credit. Unemployment Insurance. Business Statistics Economic Planning.

## UNIT ELEVEN—THE DEVELOPMENT OF OUR DOMESTIC TRADE

**XXI. DOMESTIC TRADE** ..... 509

MARKETING: Importance of Markets. Marketing Defined. Complex Nature of Modern Marketing. Various Steps in the Marketing of Goods. THE MIDDLEMAN: What a Middleman Is. Types of Middlemen. Wholesalers. Retailers. Jobbers. Brokers. Commission Merchants. Peddlers. Need for Middlemen. Elimination of Middlemen. SPECULATION: Speculation Defined. Organized Exchanges. Differences Between the Speculator and the Gambler. Control of Speculation. Services of Speculation. RETAIL TRADE: Important Role Played by Retail Merchants. Retail Stores. The Sari-Sari

Store. Retail Trade of the Philippines Dominated by Aliens. Reasons for Alien Control of Retail Trade. Progress of our Domestic Trade.

## XXII. THE PROBLEMS OF DOMESTIC TRADE.. 526

NATURE OF PHILIPPINE DOMESTIC TRADE: Characteristics of Domestic Trade. Commodities in Domestic Trade. Unfair Trade Practices. PROBLEMS OF MARKETING AGRICULTURAL PRODUCTS: The Present System of Marketing Agricultural Products. Defects of the System of Marketing Agricultural Products. Promotion of Cooperative Marketing in the Philippines. Limitations of Cooperative Marketing Associations. Establishment of Bonded Warehouses. Adequate Credit. Need for Grading and Classification of Goods. The National Produce Exchange. MARKETING OF IMPORTED GOODS: Wholesalers of Imported Goods. Retailing of Imported Goods. MARKETING OF DOMESTIC MANUFACTURES: Distribution of Locally Manufactured Goods. The Manila Trading Center. Provincial Trading Centers. DOMESTIC TRADE DURING THE WAR: Controlled Distribution of Commodities. Predominance of the "Black Market." "Buy-and-Sell" Trading. Retailers' Associations. PROMOTION OF RETAIL TRADE: The National Trading Corporation. Organization of Retailers' and Consumers' Cooperatives. Cheaper Credit to Filipino Retailers. Creation of a Fair Trade Board. Control of Alien Immigration. Training of Filipinos for Retail Trade. Other Measures to Encourage Filipino Retailers.

### UNIT TWELVE—THE GROWTH AND PROBLEMS OF OUR FOREIGN TRADE

## XXIII. INTERNATIONAL TRADE ..... 545

WHAT IS INTERNATIONAL TRADE? International Trade Defined. Exports and Imports. Differences between International Trade and Domestic Trade. Reasons for International Trade. Principle of Comparative Advantage or Comparative Costs. Visible and Invisible Items of International Trade. The Balance of International Trade. The Balance of Trade and the Balance of Payments. Favorable and Unfavorable Balance of Trade. SETTLEMENT OF INTERNATIONAL OBLIGATIONS: Foreign Exchange. Role of Banks. How Exporters Collect Payment for their