

# PRINCIPLES OF ECONOMICS

BY

L. A. RUFENER, PH.D.

*Late Professor of Economics at West Virginia University*



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## PREFACE

SEVERAL years of experience in teaching elementary economics have convinced the writer that the best textbooks hitherto available, although excellent in many respects, have certain characteristics which make the subject unnecessarily difficult for beginners. Among these characteristics are a serious lack of unity and continuity of exposition and a tone of unreality in the discussion of value and distribution. These defects of style and exposition tend to bore and confuse immature students, and as a result they lean too heavily upon lectures and class discussion and devote too little time to study. Consequently they gain only a superficial knowledge of their subject — the hours in class being too few to cover the field thoroughly.

The present book represents an attempt to write a text in elementary economics which college students will find so readable and intelligible that instructors may reasonably expect them to have read and understood the assignments before coming to class. In trying to achieve this purpose the author has departed from the conventional method of dividing the subject into a number of books or parts, each representing a more or less complete treatment of a distinct division of the field, such as production, exchange, distribution, and so on, and has adopted a novel method of approach which should perhaps be explained. The central idea upon which the whole arrangement of the book is based, is this:

The subject of elementary economics may be developed in a logical and orderly way, with a natural sequence of chapters, each chapter growing out of and developing further the preceding discussion, somewhat in the way that the plot is unfolded and developed in a novel or play. To the extent that this logical and orderly development of the subject can be realized there will be achieved unity and continuity of exposition, a prime requisite if the student is to be interested and informed instead of being merely bored and befuddled.

As a further explanation of the order of sequence of the chapters and as an aid to the student, the following summary of the book is

presented, with the numbers of the respective chapters covered by the summary indicated in parentheses:

(1) Men want more goods than are freely provided by nature and have learned to labor to produce them. (2) Goods being desirable and scarce and labor being irksome, men have contrived in various ways to improve methods of production — to increase the quantity of goods produced per hour of labor. (3) Division of labor, representing a great improvement in methods of production, made exchange and the use of money necessary and gave rise to price problems. (4) Production for sale or exchange brought the problem of business organization and business profits. (5–6) Consumers buying goods with money incomes and business men buying to sell at a profit are deeply concerned with market price and its interrelations with demand and supply, interrelations which cannot be understood without careful study. (7) A special and important price problem is that of the price of goods used by business men for business purposes, called in this book producers' goods, and this leads to a study of demand schedules for producers' goods. (8) Under competitive conditions a strong tendency exists for average costs of production in any industry to equal the market price of the product, leaving the average business man without profit. (9) In extractive industries, such as agriculture, costs of production per unit of product tend to increase with expansion of output as a result of differences in the qualities of land and the operation of the law of diminishing returns. (10) Out of conditions of increasing cost emerge the problem of the rent and price of land, (11) the problem of indirect costs in agriculture, and (12) the problem of the unearned increment, or special taxation of land. (13) To some extent conditions tending to bring increasing costs are found also in manufacturing industries; but here economies of large-scale production may more than offset the tendency to increasing cost and bring about decreasing costs as the output expands in individual plants and in the industry as a whole. (14) In manufacturing and some other industries economies of large-scale production and heavy indirect costs tend to bring about exceedingly sharp competition which may prove ruinous to the competitors. (15) As a result business men tend to combine to restrict competition or to establish monopolies. (16) Since combinations in restraint of trade and monopolies tend to re-

## PREFACE



strict output and to raise prices above the competitive level, they have been prosecuted under state and federal law and in some cases destroyed. (17) But public utility monopolies for special reasons are tolerated and encouraged by government, subject to government rate regulation. (18) In railroad transportation partial monopoly is permitted and rates are regulated by government to prevent both ruinous competition and monopolistic extortion.

(19) Wages constitute an important element of costs in all industries, and the main source of income of the mass of the people. Wages represent prices paid for one great class of producers' goods, and wage determination represents, therefore, merely a special application of the principles discussed under the subject of demand schedules for producers' goods, with some complications. (20) Differences in wages arise mainly from differences in the nature of the work to be performed and differences in the natural ability, training, and experience of men. (21) Conditions of labor and wages may be substantially altered by labor organization and (22) by labor legislation. (23-24) Interest on loans or capital is another important cost item of business men and a source of great confusion. Comparatively few persons understand why interest is paid or what determines the rate. Fundamentally interest represents a premium on present goods in terms of future goods.

Certain factors not yet discussed have an important bearing upon the production of goods, the prices of commodities, and the four shares in distribution — profits, rent, wages, and interest. These factors include (25-27) the quantity and kinds of money used, (28-30) banking and regulation of banking, (31) insurance and speculation, (32-35) domestic and foreign exchange and international trade, and (36-38) theories of the proper functions of government and theories and systems of taxation. In addition to the various problems and evils of the present industrial system that have already been considered there may be noted (39) certain special problems in agriculture that deserve particular consideration, and (40) evils of various kinds which may be eradicated by concerted efforts of the people in the interest of the general welfare.

The critical reader will find in this book a restatement and a modification of orthodox doctrines rather than a new system of economics. What contribution to economic theory it may contain will be found

mainly in the chapter on demand schedules for producers' goods, and the application of the doctrines of that chapter to the subjects of profit, rent, wages, and interest.

It is needless to point out that the author has borrowed much from other writers on economics, but he desires to acknowledge in particular his debt to the published works of Professors T. N. Carver, Irving Fisher, W. Z. Ripley, and F. W. Taussig, and to the classroom instruction of Professors Bullock, Gay, Ripley, and Taussig, at Harvard University. The writer is under obligation also to Professor E. S. Furniss, of Yale University, who read the entire manuscript and offered numerous helpful suggestions for improvement, and to Helen B. Rufener for aid in preparing the manuscript for the printer.

L. A. RUFENER

WEST VIRGINIA UNIVERSITY

# CONTENTS

<b>CHAPTER I. WANTS, GOODS, AND WELFARE . . . . .</b>	<b>1</b>
1. Wants of human beings. 2. Wants satisfied by goods. 3. The earth a storehouse of materials. 4. Materials of the earth divided into three classes. 5. Consumers' goods. 6. Producers' goods. 7. Useless materials. 8. Production, utility, usefulness. 9. Labor that creates utility is productive. 10. Form, place, and time utility. 11. Difference between goods and services superficial. 12. Unproductive labor. 13. Universal scarcity of goods. 14. Unequal distribution of income. 15. Five fundamental reasons for scarcity of goods. 16. Man can expect no increase in the goods supplied by nature. 17. Our earliest human ancestors lived largely on the bounty of nature, as wild animals do to-day. 18. Men have improved their methods of production; animals have not. 19. The pressure of population. 20. Limitation of the size of families. 21. Statistics of population show that the increase continues. 22. When labor is ineffective goods are scarce. 23. Human happiness dependent upon abundance of material goods.	
<b>CHAPTER II. IMPROVING METHODS OF PRODUCTION . . . . .</b>	<b>29</b>
1. The use of capital, or the roundabout method of production. 2. Accumulation and maintenance of capital. 3. Distinction between capital and land, and capital and money. 4. Distinction between producers' goods and consumers' goods based on the use to which they are put. 5. The division of labor and its advantages. 6. Natural forces and chemical processes. 7. Economic evolution. 8. Stages of economic evolution. 9. Capital and economic evolution. 10. The industrial revolution. 11. Agriculture before the industrial revolution. 12. Manufacture before the industrial revolution. 13. The domestic system. 14. Machinery, mechanical power and the factory system. 15. Workmen's condition changed for the worse in some respects. 16. Complex division of labor. 17. Geographical division of labor. 18. Increased production of goods. 19. Why poverty still exists.	
<b>CHAPTER III. EXCHANGE, VALUE, AND PRICE . . . . .</b>	<b>55</b>
1. Improvements in methods of production bring new and perplexing problems. 2. Division of labor makes exchange necessary. 3. Difficulties of barter. 4. Money introduced to avoid the difficulties of barter. 5. The uses, or functions, of money. 6. Gold money, an example of the survival of the fittest. 7. What is a dollar? 8. Money has become practically necessary under our present economic organization. 9. Price, a most important subject the study of which is curiously neglected.	

<b>CHAPTER IV. BUSINESS ORGANIZATION AND PROFITS</b> . . . .	<b>67</b>
1. Why every one is interested in business. 2. Business defined. 3. Profits defined. 4. Calculating profits. 5. Profits and expenses further considered; the economist's definition. 6. Profits calculated according to the economist's definition. 7. The individual proprietorship and its advantages. 8. Disadvantages of the individual proprietorship. 9. Advantages and disadvantages of the partnership. 10. The corporation and its stockholders. 11. The preferred stockholder's position. 12. Bonds and bondholders. 13. Stocks and bonds further considered. 14. Advantages and disadvantages of the corporation summarized. 15. Do stockholders and bondholders receive interest or profit?	
<b>CHAPTER V. DEMAND AND SUPPLY AND MARKET PRICE</b> . . . .	<b>87</b>
1. Every one vitally interested in prices. 2. Business men more concerned with prices than others. 3. Why more producers' goods than consumers' goods are bought and sold. 4. Price changes and profits. 5. Relation between demand, supply, and market price generally not well understood. 6. Price, supply, and demand defined. 7. Why a decrease in price causes an increase in the quantity demanded. 8. The law of diminishing utility. 9. Diminishing utility and limited incomes related to price and demand. 10. An assumed demand schedule for eggs. 11. Effect of price upon supply of perishable commodities. 12. Effect of price upon supply of non-perishable commodities. 13. Speculation and demand and supply.	
<b>CHAPTER VI. DEMAND AND SUPPLY AND MARKET PRICE (continued)</b> .	<b>99</b>
1. Effect of market price on demand and supply summarized. 2. Other causes of changes in supply. 3. Other causes of changes in demand. 4. The principle of diminishing vendibility. 5. Why marginal vendibility sets the price of the whole supply. 6. How a change in demand affects price. 7. Relation between demand, supply and market price summarized. 8. Use of diagrams, or charts, explained. 9. Continuous and discontinuous demands. 10. Doubling of supply and demand in the schedule sense. 11. Demand and supply curves showing doubling of demand and supply. 12. Elastic and inelastic demand.	
<b>CHAPTER VII. DEMAND SCHEDULES FOR PRODUCERS' GOODS</b> . . .	<b>118</b>
1. Law of diminishing utility does not apply to producers' goods. 2. Prices of producers' goods depend upon the price of the products. 3. Diminishing vendibility illustrated by statistics from the Chicago egg market. 4. The maximum total a producer can pay for all his producers' goods is the value of his product. 5. Determining the maximum price a producer can pay for any one class of producers' goods. 6. A producer's maximum price for any class of producers' goods varies with his profits, and with the prices of its complementary producers' goods. 7. Diminishing vendibility of producers' goods. 8. Market prices of producers' goods, like those of consumers' goods, mutually affect one another. 9. The law of diminishing productivity and the price of producers' goods. 10. Direct and indirect costs defined and illustrated. 11. Indirect costs and the producer's maximum price.	



12. The temporary and the long run maximum. 13. Effect of restriction of output upon the price of producers' goods. 14. Selling out to escape loss from indirect costs.

**CHAPTER VIII. COSTS OF PRODUCTION, MARKET PRICE, AND PROFIT** 138

1. Summary of some conclusions of the preceding chapter. 2. Collectively producers control the market price of producers' goods, but individually market price controls them. 3. Under competitive conditions producers making profits tend to expand output. 4. Expansion of output and falling prices tend to force the least competent producers out of business. 5. Under conditions of constant and uniform cost price would equal cost of production. 6. Varying cost, market price, and the marginal producer. 7. Causes of differences in cost: differences in ability. 8. Other causes of differences in cost. 9. Causes of differences in profits. 10. A rising price level increases profits. 11. Cost of the business man's own labor. 12. Are there net profits in industry as a whole? 13. Profits of corporations.

**CHAPTER IX. COST AND PRICE IN AGRICULTURE: WHEAT-GROWING** 156

1. Two classes of industries: industries of increasing cost and industries of decreasing cost. 2. Expansion of wheat-growing in the United States. 3. Only two ways of increasing output. 4. The law of diminishing returns. 5. Expansion of output involves increasing cost per bushel. 6. Assumptions made to simplify discussion of increasing costs. 7. A simplified table of costs. 8. A wheat supply schedule. 9. Why consumers must pay more when quantity demanded increases. 10. Market price must equalize demand and supply. 11. This year's market price depends upon this year's supply, but is a determining factor of next year's supply. 12. Questions raised by omission of land as a cost item.

**CHAPTER X. THE RENT AND PRICE OF AGRICULTURAL LAND** . . . 169

1. Conditions of cost in wheat-growing summarized. 2. How land differs from other producers' goods. 3. The amount of land remains fixed. 4. Rent: conditions under which there would be no rent. 5. Development of agriculture and land-ownership in the United States. 6. Calculating the rental value of wheat land. 7. High prices of farm products cause high rents of land. 8. The price of land represents the capitalization of rent. 9. From the farmer's point of view rent is a cost of production. 10. Land not devoted exclusively to wheat. 11. Differences in ability among farmers, and the rent of land. 12. Demand and supply of land, and rent. 13. Demand and supply and the price of land. 14. Marginal producer, marginal land, and marginal bushels. 15. Customary rent. 16. The price of land may be more or less than capitalization of rent at the current rate of interest.

**CHAPTER XI. INDIRECT COSTS IN AGRICULTURE** . . . . . 190

1. Conditions of demand and supply of land summarized. 2. Factors tending to cause a rise in rents. 3. Factors tending to cause a fall in rents. 4. General decrease in costs of cultivation tends to cause a fall in rents. 5. Temporarily a rise in costs may cause a fall in rents. 6. Rising rents cause land speculation. 7. Farm owners' costs are mainly indirect. 8. The farmer's indirect costs when prices fall.

<b>CHAPTER XII. ECONOMIC RENT AND THE UNEARNED INCREMENT</b>	<b>201</b>
1. Economic rent in coal mining. 2. Profit and rent in metal mining. 3. Rent in the petroleum industry. 4. Urban site rent and the price of urban sites. 5. Calculating the rent and price of urban sites. 6. The law of diminishing returns and urban sites. 7. Urban sites for residential purposes. 8. The argument for the appropriation of economic rent by the Government. 9. Two methods of appropriating economic rent or confiscating land values, and objections to them. 10. Appropriating the future increase in rent. 11. Further objections to public appropriation of future increase in rental values. 12. Economic rent and inequality of wealth and income. 13. Some special arguments favoring public appropriation of economic rent. 14. Stabilizing the price of land. 15. Conclusion.	
<b>CHAPTER XIII. COST OF PRODUCTION IN MANUFACTURING: DECREASING COST</b>	<b>230</b>
1. Brief statement of the principle of increasing cost. 2. Principle of increasing cost applies to all extractive industries. 3. It applies to all other industries to the extent that they require land for their operations. 4. Tendency to increasing cost not strong in manufacturing. 5. Indirect effect of increasing cost in manufacturing. 6. Principle of decreasing cost in manufacturing. 7. Internal economies of large scale production. 8. External economies or indirect advantages of large scale production. 9. Conditions under which external economies are realized. 10. The less extensively and less directly an industry draws its raw materials from extractive industries the more it gains from external economies. 11. Industries in which internal economies of large scale production are limited.	
<b>CHAPTER XIV. DECREASING COSTS, INDIRECT COSTS, AND PRICE</b>	<b>244</b>
1. Summary of preceding chapter. 2. Competitive conditions under decreasing cost illustrated by the automobile industry. 3. Varying costs of various producers with plants of various capacities. 4. Demand schedules for automobiles. 5. Conditions of cost and demand graphically depicted. 6. Strong incentive to expansion. 7. Competitors forced to expand in the face of falling prices. 8. Expansion naturally continues until weaker competitors fail. 9. Indirect costs in manufacturing. 10. Influence of indirect costs often confused with economies of large scale production. 11. Effect of uneven expansion of plant capacity and output. 12. Upward jogs in cost curves. 13. Indirect costs and competition. 14. The choice between losing less and losing more. 15. The cost of the extra units.	
<b>CHAPTER XV. MONOPOLY AND MONOPOLY PRICE</b>	<b>261</b>
1. Business men and the dragon of competition. 2. Agreements to maintain price and to restrict output. 3. Horizontal and vertical combinations and their advantages. 4. Desire for monopoly often the chief motive for combination. 5. Complete monopoly in manufacturing almost impossible. 6. Difficulty of maintaining prices without complete monopoly. 7. Reasons for doubting that monopolists produce more economically than competitors. 8. Monopoly avoids certain wastes of competition. 9. But monopoly leads to greater wastes.	

10. Use of statistics to avoid wastes of competition. 11. Monopolies not resulting from pressure of competition. 12. Public utility franchises. 13. Local railroad traffic. 14. Control of limited natural resources. 15. Associations of business men. 16. Aim of monopolists is greater net gain. 17. The law of monopoly price. 18. Conditions most favorable to raising prices and restricting output. 19. Automobile monopolist compared with the wheat monopolist. 20. Conditions favoring and not favoring raising prices far above the competitive level graphically depicted. 21. Conditions under which a monopolist would not raise price above the competitive level.

#### CHAPTER XVI. INDUSTRIAL MONOPOLIES AND GOVERNMENT CONTROL 285

1. Monopolies and the Government. 2. The common law and monopoly. 3. The cotton-bagging case. 4. The Standard Oil Company's trustee device. 5. The Oil Trust and the Sugar Trust illegal under the common law. 6. Monopolistic corporations and the common law. 7. The Sherman Anti-Trust Law. 8. How the oil monopolists evaded the common law. 9. Holding companies and monopolistic property-owning corporations. 10. The holding company an excellent monopolistic device. 11. Holding companies and the corporation laws of New Jersey. 12. American Sugar Refining Company case; monopoly of manufacture held not to be in restraint of trade. 13. The Sherman Act applied to railroads — the Trans-Missouri Freight Association case. 14. The Sherman Act applied to labor organizations. 15. The Standard Oil Company of New Jersey dissolved. 16. The Tobacco Combination dissolved. 17. The United States Steel Corporation — a "good trust." 18. The Clayton Act. 19. The Federal Trade Commission. 20. Difficulties of administration and interpretation of anti-trust laws. 21. Continued government regulation of business combinations desirable.

#### CHAPTER XVII. PUBLIC UTILITIES AND GOVERNMENT CONTROL . . 305

1. Monopoly in public utility enterprises inevitable: why this is true. 2. Monopoly here also desirable. 3. Government regulation *versus* government ownership. 4. Government ownership less common in the United States than in Europe. 5. Monopolistic conditions the fundamental reason for government control. 6. Satisfactory service and reasonable rates the primary objects of government regulation. 7. Method of fixing reasonable rates by public service commissions. 8. Calculating operating expenses. 9. Value of the investment in a non-regulated business is the capitalized value of the income. 10. An example of capitalized income: how changes in income cause changes in capitalized value. 11. How changes in the interest rate cause changes in the value of investments. 12. Why public service commissions cannot base their valuations on capitalization of income. 13. Finding the cost of the investment — a logical procedure in rate regulation. 14. Finding the cost of construction at the time of construction less difficult than finding it a generation later. 15. Estimating the original cost and the present cost of construction. 16. How fixing rates on cost of production basis may rob the investor. 17. Effects of a general rise or fall in prices upon investors in regulated industries. 18. Effects of changes in the interest rate. 19. Public utilities and the

unearned increment in land values. 20. Investors in public utility enterprises should be given the status of investors in bonds. 21. Valuation and the courts. 22. Depreciation and valuation.

#### CHAPTER XVIII. RAILROADS AND GOVERNMENT CONTROL . . . . . 328

1. Railroads and public utilities discussed separately. 2. Size and importance of the railroad industry. 3. Peculiar characteristics of the railroad industry and their results. 4. Decreasing cost, indirect costs, and joint cost. 5. Classification of railroad expenses. 6. Constant, or indirect, costs and competition. 7. Joint cost illustrated. 8. Why extra traffic pays at ridiculously low rates. 9. Difference between extra business of railroads and of manufacturers. 10. Rate discrimination. 11. What the traffic will bear: local discrimination. 12. Commodity discrimination. 13. How competition modifies what the traffic will bear. 14. Effect on competition of few competitors and specialized plant. 15. Water competition. 16. Personal discrimination. 17. Pools, rate agreements, combinations. 18. Through lines and competition. 19. The Interstate Commerce Commission. 20. Primary purpose and complexity of government regulation of railroads. 21. Main provisions of the Interstate Commerce Act. 22. The Commission declared practically powerless by the Supreme Court. 23. Later laws give Commission full legal power over rates, but its power is limited by economic law. 24. Valuation and a reasonable return. 25. The Transportation Act of 1920. 26. The recapture of earnings clause. 27. Government control over new construction and issues of securities.

#### CHAPTER XIX. DEMAND SCHEDULES FOR LABOR . . . . . 356

1. Simplicity of the wages problem before the factory system. 2. The present wages system. 3. How much can a particular worker expect to get in wages for helping make a product on which many workers coöperate? 4. Labor one form of producers' goods. 5. Demand schedules for labor. 6. Business men may temporarily employ labor at a loss. 7. An employer's three resistance points to wage increases. 8. What are additional nonessential employees worth? 9. A demand schedule for every class of workers. 10. How an increase in workers lowers the competitive wage level. 11. Why some employers pay more than the competitive wage rate. 12. Some workmen accept less than the full competitive wage rate.

#### CHAPTER XX. DIFFERENCES IN WAGES . . . . . 369

1. Marginal vendibility of labor, and wages. 2. Conditions under which there would be no differences in wages. 3. Differences in wages arise from differences in attractiveness and complexity of work and differences in natural ability, training and experience of men. 4. Occupations may be classified according to complexity of work. 5. The unskilled labor class of occupations. 6. The skilled and the semi-skilled groups. 7. The clerical group. 8. The professional and big business groups. 9. Non-competing groups. 10. Wages in various occupations equalize demand and supply of workers. 11. Possibility of shifting from one occupation to another. 12. Most men cannot shift upward: the bottom ranks remain crowded. 13. Some

natural talent wasted for lack of opportunity: some opportunity, for lack of natural talent. 14. Demand for labor as a consumers' good. 15. Wages of business men. 16. The general level of wages depends in part upon total output of industry. 17. Scarcity of labor relatively to land, capital and management affects the wage level. 18. Conclusions respecting differences in wages: money wages and real wages.

**CHAPTER XXI. LABOR ORGANIZATION . . . . . 387**

1. Wages under competitive conditions. 2. Forcing wages below the true competitive level. 3. The advantages to the workers of labor organizations. 4. Forms of labor organization. 5. The extent of labor organization. 6. The American Federation of Labor. 7. The essentials of the collective bargain. 8. Labor controversies. 9. How much may be gained by Trade Unionism? 10. Conclusions.

**CHAPTER XXII. LABOR LEGISLATION . . . . . 412**

1. Labor conditions under unregulated competition. 2. The evil of child labor. 3. The evils of long hours and low wages. 4. Industrial accidents and occupational disease. 5. Inadequate compensation to victims of industrial accidents and their dependents. 6. Early opposition to labor legislation. 7. Development of labor legislation in England. 8. Why effective labor legislation has come late in the United States. 9. Child labor laws in the United States. 10. Hours of labor. 11. Laws in the interest of safety and health. 12. Workmen's compensation laws. 13. Minimum wage laws. 14. Arbitration laws. 15. The Watson-Parker Bill for adjustment of railroad labor disputes. 16. Unemployment.

**CHAPTER XXIII. INTEREST, THE PRICE OF LOANS . . . . . 442**

1. Interest assumed to be a cost of production. 2. Interest defined as the price of loans, or premium on present goods in terms of future goods. 3. Conditions under which no interest would be paid. 4. Money has become a medium of lending as well as a medium of exchange. 5. Why some people are savers and lenders and others borrowers and spenders. 6. Lack of foresight. 7. Self-control and habit. 8. Expectation of life and love of posterity. 9. Ambition, ingrained thrift, love of accumulation, large incomes, public spirit. 10. Interest adds both to one's desire to save and one's capacity to save. 11. Three reasons for borrowing. 12. Durable consumers' goods. 13. Borrowing for business purposes. 14. All that is saved is not lent. 15. The rate of interest a price problem — the price of loans. 16. Demand schedules for loans. 17. Supply schedule for loans. 18. The rate of interest equalizes the demand and supply of loans. 19. Pure interest and contract interest. 20. Paying for risk assumed by lenders. 21. Service, liquidity of loans, anticipated changes in interest rates. 22. Bank loans which are not the result of saving.

**CHAPTER XXIV. PRODUCERS' LOANS AND THE RATE OF INTEREST . 458**

1. How time-preference accounts for producers' loans. 2. Discounting producers' goods. 3. Calculating the value of producers' goods. 4. Productivity of capital. 5. Gross, net, and diminishing productiv-

ity of capital. 6. Marginal productivity of capital. 7. Competition forces business men to resort to roundabout methods of production, or the use of capital. 8. Relation between the rate of interest and the roundabout method. 9. Does marginal productivity of capital determine the rate of interest? 10. Social significance of the time-preference theory *versus* the marginal productivity theory of interest. 11. Social significance of saving and lending. 12. The rate of interest and the price of land.

#### CHAPTER XXV. THE QUALITIES AND QUANTITY OF MONEY . . . 483

1. The four functions of money. 2. Qualities of good money: acceptability and portability. 3. Divisibility and homogeneity. 4. Cognizability. 5. Durability and stability of value. 6. Qualities of a good standard of value. 7. Stability of value important in a standard of deferred payments. 8. Why other kinds of money are used although gold is the best money. 9. The peculiar nature of the price and value of gold. 10. The quantity of gold and its value. 11. The quantity theory of money. 12. The equation of exchange. 13. Relation between money and bank deposits. 14. Doubling the quantity of money tends to double prices, but does not necessarily double them.

#### CHAPTER XXVI. SILVER MONEY IN THE UNITED STATES . . . 498

1. The coinage law of 1792 provided for free coinage of both silver and gold. 2. Why gold was not taken to the mint. 3. New silver coins victims of Gresham's law. 4. The mint ratio changed to 16 to 1 in 1834. 5. Subsidiary Coinage Act of 1853. 6. Dropping the silver dollar — the "crime of 1873." 7. Reasons for the free silver controversy. 8. Sources of support for the free silver campaign. 9. Debtors stood to gain by the free coinage of silver, and more money. 10. Why business men may favor more money. 11. The silver purchasing acts and the Bryan campaigns. 12. Why bimetallism was abandoned in the United States. 13. Bimetallism might have been saved with advantage by coöperative action among leading nations.

#### CHAPTER XXVII. GOVERNMENT PAPER MONEY . . . 510

1. What government paper money is. 2. Gold and silver certificates. 3. Credit money and fiat money. 4. Why credit money is issued. 5. Apparent advantages of a moderate issue. 6. A real net gain is possible from a moderate issue. 7. Government paper money breeds more paper money. 8. Results of immoderate issues of government paper money. 9. Robbing Peter to pay Paul. 10. Fiat money most commonly issued under stress of war.

#### CHAPTER XXVIII. BANK DEPOSITS AND BANK NOTES . . . 523

1. Classes of banking institutions. 2. Savings banks and their services. 3. Investment banks and trust companies. 4. Commercial banks and their main purpose. 5. Organizing a state bank. 6. Beginning banking operations. 7. Discounting illustrated. 8. Advantage of granting loans in the form of deposits. 9. Maintaining a safe cash reserve ratio. 10. Ratio of loans to deposits. 11. What is a safe reserve ratio? 12. Natural antagonism between reserves

and profits. 13. Bank notes compared with bank deposits. 14. Desirability of legal regulation of bank note issue. 15. Difference between bank loans and other loans.

**CHAPTER XXIX. BANK CREDIT AND BUSINESS CYCLES . . . 539**

1. A business cycle defined. 2. No exact periodicity of cycles. 3. Business cycles natural result of relations between banks and business. 4. The period of depression. 5. Recovery aided by cheap bank loans. 6. Accidental circumstances may hasten prosperity. 7. Stock market may foreshadow prosperity and boom. 8. The business boom. 9. Reckless buying and speculation. 10. The rise in prices and the expansion of bank loans. 11. Bankers and business men welcome the expansion in bank loans. 12. Loan expansion reduces the reserve ratio. 13. Why prices fall when loan expansion ends. 14. When everybody unloads, the crisis. 15. Why business men profit in the early stages of the expansion. 16. How rising costs bring failure. 17. Crises and panics. 18. The gains and losses resulting from business cycles. 19. Are crises and depressions blessings in disguise? 20. Increase in the supply of money, and expansion.

**CHAPTER XXX. GOVERNMENT REGULATION OF BANKING IN THE UNITED STATES . . . 558**

1. Requisites of sound financial conditions. 2. We have suffered little from government paper money. 3. Our government has not prevented unsound expansion of bank credit. 4. The First and Second Banks of the United States. 5. The National Banking System and national bank notes. 6. Reserve against deposits under the National Banking System. 7. Why many banks did not join. 8. Value of the note issue privilege. 9. What constitutes an ideal banking system. 10. Note issue under National Banking System inelastic. 11. Deposits subject to inflation and reserves inadequate in time of need. 12. Causes of strain. 13. The Federal Reserve System. 14. Member Banks and cash reserves. 15. Reserve Banks and cash reserve. 16. Reserve Banks are bankers' banks. 17. Rediscounting illustrated. 18. Why member banks borrow. 19. Rediscounting and expansion of loans. 20. Effect of expansion on Reserve Banks' reserve ratio. 21. Limits of expansion. 22. Inflation easy under Federal Reserve System. 23. A good financial shock absorber but not an ideal banking system. 24. Federal Reserve System could stabilize prices. 25. The use of index numbers. 26. The Federal Reserve Board policy, 1923-1926. 27. Stock of money of various kinds in the United States on May 1, 1926.

**CHAPTER XXXI. RISK, INSURANCE, AND SPECULATION . . . 582**

1. Risks of roundabout production for profit. 2. Risk reduced by specialization. 3. The risks of the specialist. 4. Reducing risk by monopoly and combination. 5. Reducing risk by insurance. 6. Speculation and speculators. 7. Organized commodity exchanges, or markets. 8. Dealing in futures. 9. The good and evil of speculation. 10. Hedging. 11. Stock market speculation. 12. Hazards of unintelligent stock market speculation. 13. Business forecasting.

## CHAPTER XXXII. CLEARINGS, COLLECTIONS AND EXCHANGE . . . 603

1. Four classes of payments for goods and services. 2. Payment by check when buyer and seller are patrons of different banks in the same city. 3. Clearing-house associations and clearing-houses. 4. Three methods of clearing and collecting. 5. The most simple and efficient method illustrated by example. 6. Use of clearing-house certificates and of federal reserve banks to simplify clearing. 7. Payments when the buyer lives in one city and the seller in another. 8. Bank drafts and correspondent banks. 9. Buyers may make out-of-town payments by bank drafts. 10. Service charge for bank drafts: remitting at par. 11. The use of commercial drafts. 12. Deferred payments. 13. Promissory notes. 14. Borrowing from the buyer's bank. 15. Trade acceptance and promissory note compared. 16. Methods of making payments in distant cities summarized. 17. Conditions under which actual shipments of money must be made. 18. Clearings and collections through federal reserve banks. 19. The gold settlement fund.

## CHAPTER XXXIII. FOREIGN EXCHANGE . . . . . 624

1. Ordinarily no foreign money except gold is acceptable in any country; cost of making foreign payments in gold. 2. Services performed by foreign exchange bankers. 3. Forms of foreign exchange. 4. The rate and the par of exchange. 5. The gold export and the gold import points. 6. Sources of supply and demand; primary and secondary sources. 7. Simplified conditions assumed to show relation between demand and supply and the rate of exchange. 8. Conditions tending to fix the rate at par. 9. When demand exceeds supply at a given rate, the rate rises, possibly to the gold export point. 10. Why gold exports tend to cause a fall in the rate. 11. Why the rate cannot fall much below the gold import point. 12. Total demand and supply of exchange in New York on all countries, and the rates of exchange. 13. The effect on the rate of exchange is the same whether the buyer pays with a bank draft or the seller draws a commercial draft. 14. Why the New York rate is the rate for the country as a whole. 15. Cable transfers, demand bills and time bills. 16. Inflation and gold exports; inflation and war. 17. Why a country's exchange falls when its money depreciates.

## CHAPTER XXXIV. INTERNATIONAL TRADE . . . . . 645

1. Foreign trade arises when commodity prices are lower in one country than in another. 2. Controversies concerning foreign trade. 3. Differences in prices of commodities within a country measure roughly differences in costs of production. 4. Differences in costs of commodities within a country measure roughly differences in quantity of labor required for their production. 5. Differences in prices in different countries: four conceivable conditions. 6. Differences in the quantity of money and credit. 7. Differences in comparative costs. 8. Prices of readily portable commodities cannot be much higher in one country than in another. 9. Simplified conditions assumed to illustrate gains from foreign trade. 10. Comparative costs: Case I. 11. The gain tends to be shared by the two countries. 12. Effect of diverting labor and capital into more productive industries. 13. Comparative costs: Case II. Both countries gain. 14. Trade when money wages are



higher in one country than in another. 15. The high wage as well as the low wage country gains from trade. 16. Conclusion; foreign trade advantageous to both countries concerned. 17. Possible effects of trade on costs in the exporting country. 18. A market may be shared by foreign and domestic producers. 19. Effect of an insistent demand for important commodities.

**CHAPTER XXXV. PROTECTION AND FREE TRADE . . . . . 667**

1. Terms defined: free trade, import taxes or duties, protective tariff. 2. Import duties involve cost; a counteracting gain must be shown to justify them. 3. Comparative costs in the United States and England in the time of Hamilton. 4. The United States had a comparative advantage in producing agricultural products. 5. Hamilton's Report on Manufactures; Protective tariff policy advocated. 6. Arguments in favor of protection; diversification of industry argument. 7. Diversification is desirable, but self-sufficiency impossible. 8. Diversification not dependent on a protective tariff. 9. Non-transportable goods and personal services not subject to foreign competition. 10. Fallacy of the ordinary argument that the tariff raises wages. 11. A sounder but more complicated argument based on marginal vendibility of labor. 12. Fallacy of additional employment for labor argument. 13. Weakness of the home market argument. 14. Infant industry argument easily over-rated. 15. The anti-dumping argument limited in its application. 16. Import taxes as instruments of retaliation and bases for negotiations. 17. The favorable balance of trade argument. 18. A possible gain pointed out by Professor Taussig. 19. A tariff for revenue only. 20. Calculating money costs of import duties. 21. Why protectionism has flourished despite a weak theoretical basis. 22. Shall we retain protection? 23. Restrictions on exports. 24. Policies of protection and restriction of exports quite similar in purpose and results.

**CHAPTER XXXVI. THE FUNCTIONS OF GOVERNMENT . . . . . 694**

1. Five theories concerning the proper functions of government. 2. A government not an abstraction but a group of men with more or less limited political power. 3. Anarchistic theory unsound. 4. Laissez-faire theory — presumption is against unnecessary government activity. 5. Socio-political theory favors extension of government activities. 6. Government regulation of industry, government ownership, and special taxation of the rich. 7. Conservatives, liberals and progressives are now all socio-political theorists. 8. State socialism: three reasons why some persons urge its adoption. 9. Private enterprise a wasteful system of production. 10. Glaring inequality of wealth and income under private enterprise. 11. Fundamental causes of inequality. 12. Unusual business ability and profits. 13. Luck. 14. Fraud, unfair competition, monopoly. 15. Interest and the unearned increment. 16. Inheritance of property; money makes money. 17. The two flags of socialism. 18. Methods of transferring ownership and control of industry to government. 19. Methods of operating industry under socialism; wages and the price system might be retained under socialism. 20. Cost of production principle applied. 21. Assuming ideal conditions, gains would come from socialism, but smaller