EC. 1 ECONOMICS A

SCANNED

AS

FOUND

1941–42

HARVARD UNIVERSITY

ECONOMICS A

I

(One hour and one-half)

Write on BOTH *of the following in this section:*

1. President Roosevelt's message to Congress on April 27 asked for, among other things:
   (*a*) Highest taxes in history
   (*b*) A universal price ceiling
   (*c*) Vastly increased purchases of war bonds
   (*d*) Rationing of scarcity items.
   Discuss the part played by each of these proposals and their interrelationships in meeting the economic burden of a war.

3:00

2. Analyze the monetary controls existing in the powers possessed by the Federal Reserve System and the United States Treasury. Indicate the importance of such controls in a banking system required to hold only partial reserves against deposits.

3:45

II

(One hour and one-half)

Write on any THREE *of the following.*

3. U. S. trade with Latin America in 1941 showed a commodity import balance of $106 million, which tended to deplete the peso balances held by U. S. banks through Latin American correspondents. Discuss the feasibility of the following in rebuilding these balances, both in terms of the internal and external consequences of such policies:
   (*a*) Further devaluation of the dollar bad
   (*b*) Relaxation of priority and allocation regulations. good

4:15

4. Interpret the prosperity of the late twenties, the failure of this prosperity to continue, and the depression of the early thirties in the light of your understanding of business fluctuations.

4:45

5. Discuss briefly any TWO of the following:
   (*a*) Quasi-rent.
   (*b*) Profit theory and the modern corporation.
   (*c*) Labor unions and their effect on wages.
   (*d*) Selective excise taxes and their incidence.

5:15

6. "The level of Mexican wages should be a matter of supreme indifference to us when we are trying to decide whether free trade with Mexico would be beneficial to this country." Do you agree? Explain fully.

Final. 1942.

3 – MV = PT (?)

inflate, import

U.S.

A imports to B, B loses credit.

№ 106

EXAMINATION BOOK

Name M. Mason Gaffney

Date Jan. 21, 1942

Subject Economics A

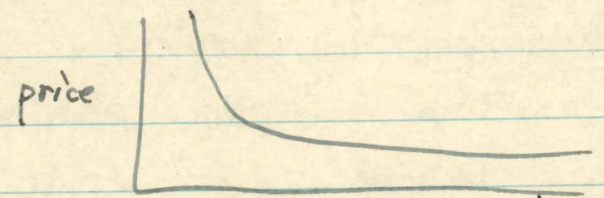
Section 20 (Dr. Staehle)

Do not tear out leaves from this book.

93 15 15 13 9 73

C+

1. a.
In the 1st quadrant of Cartesian co-ordinates we may plot a curve which lies on all those points whose co-ordinates satisfy a certain equation in 2 variables, one of which depends on the other. Due to the fact that the more a person consumes of a good, (in any given period of time) the lower is its utility to him (theory of decreasing marginal utility), he can be expected to buy increasing quantities of it only at decreasing prices, e.g., at 50¢ he would buy 30, & at 45¢, 35. Such a curve would look like this:



When price is very high Elasticity is the measure of the intensity of the consumer's desire. If it is very intense, changes in price will affect consumption little (example – necessit

& we say elasticity is low

ies), and if it is not intense, changes in price will greatly affect consumption (example, luxuries), & we say the demand is elastic.

Elasticity = $\frac{\text{\% change in consumption}}{\text{\% change in price}}$.

If Elty=1, we call it elasticity unity.

When price is very high, elasticity will be low because people will persist in buying small amounts. When price is very low, elasticity will also be low, because desire will be nearly satiated.

If there is competition, elasticity will be greater at & above the point of competition, because of the possibility of substitution.

In drawing this individual demand curve we assume ceteris paribus; all things remaining equal, that is, same price & therefore art lay. An increase in the intensity of desire will steepen the curve; an increase in the man's income will shift the curve bodily to the right.

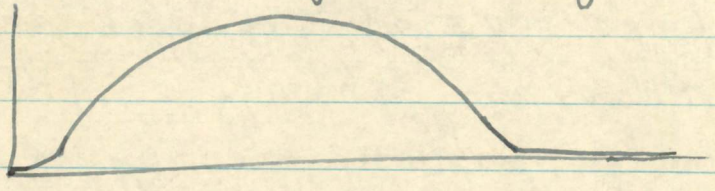
(in principle, at least)

b. Every individual has a demand curve that is slightly different. If we add together the curves of every consumer, & graph them against price, we have the market demand curve (using, in practice, a larger unit of the good, so we can understand the curve's shape). The same conditions and assumptions affecting the individual demand curve also affect this one. The significance of this curve is greater, however, because the demand of consumers as a whole greatly influences short-run price changes.

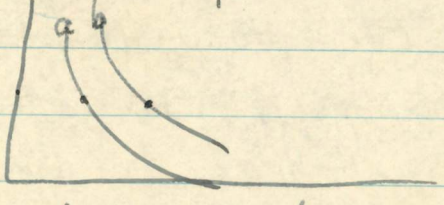
c: If, in the production of a good, there is a perfect monopoly, the individual producer will be faced with, as his demand curve, the curve of the market as a whole. ~~He is they faced with the problem of producing, not at peak efficiency, but at the point where,~~ b For him to maximize his total revenue is not to produce as much as he can, for that would lower price, but to produce where the product of the

minus his total costs

price times the amount taken, is maximized. He faces this problem because he alone, by regulating his own output, can materially affect the market supply, & therefore price. Graphing total revenue against output, we get something like this:



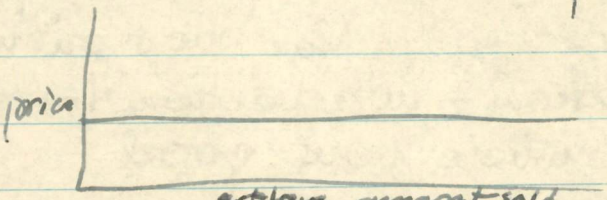
In duopoly it is slightly different. The market demand curve is divided between 2 producers, either of whom, by changing his price & or output could affect market price.



In drawing these curves, we assume that the price of the other remains equal; if b, for example, lowered his price, a would have to do likewise probably, for otherwise b would take his customers; but these curves show what would happen if a did not change his price. Therefore,

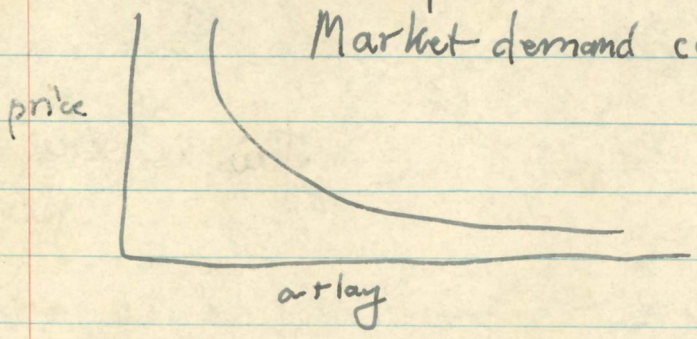
The two points at which ~~price~~ consumption is add up to the market curve; but the 2 curves do not add up to a point on the market curve. This is a very good point

In perfect competition, each producer is faced with the possibility of ~~infinitely~~ indefinitely increasing total revenue by ~~increasing~~ indefinitely increasing production. He is faced with a horizontal demand curve, at the market price, which is



not affected measurably by him alone. Since TR = Price X amount sold, TR will be proportional to amount sold.

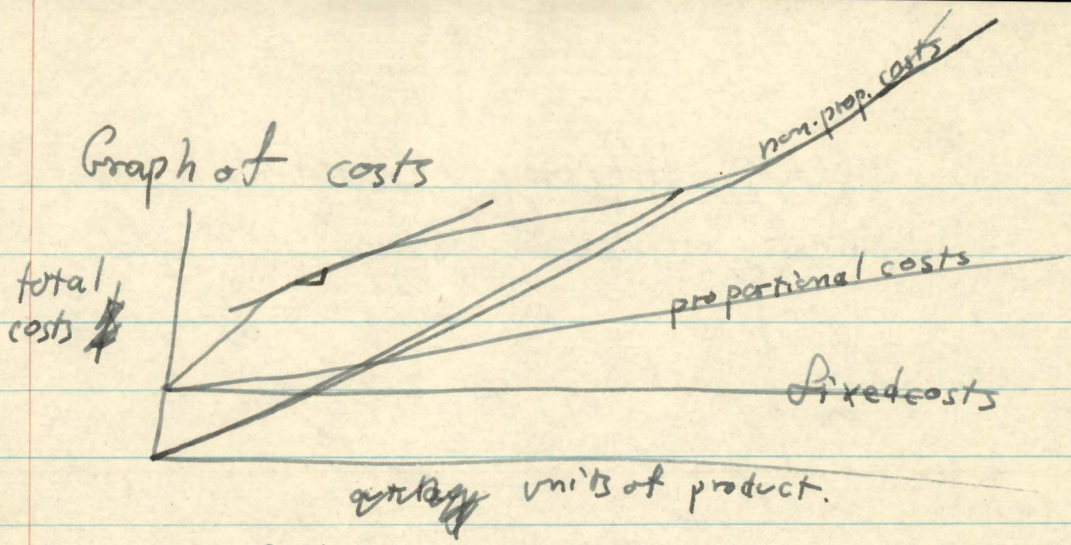
Interrelationships:



a). Monopolist has whole curve
b) Duopolist has part of it.
c) Free competitor has infinitesimal part of it, strt. line.
d) Individual consumer contributes to its shape, slightly. Now show originality in your presentation – in addition to knowledge. On the whole very good 23/25

2. ATUC = Average total unit costs, or cost per unit.
MC = Marginal Costs, or addition to total costs by producing one more unit.
TC = Total Costs

Graph of costs



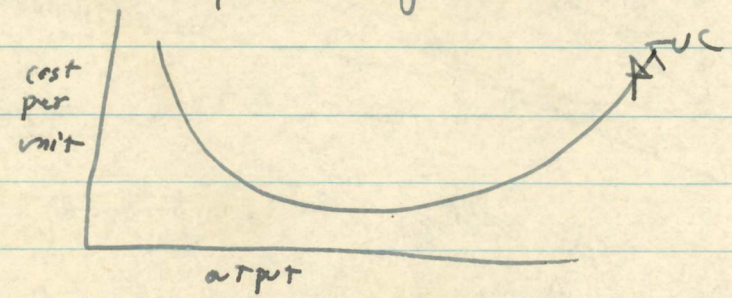
First of all, a producer wants lowest costs. The slope of the radius vector $= \frac{\text{total costs}}{\text{no. of units.}}$, or cost per unit. We want this to be as low as possible. The slope of the tangent to the cost curve at any point $= \frac{\text{*}}{1}$ (calling this point 1 infinitesimal unit)

which is MC. Geometrically we can see that the slope of the radius vector is lowest when it is coincides with the tangent to the curve.

Reason, moreover, tells us that if MC < ATUC, ATUC would go down if we expanded, & if MC > ATUC, ATUC would go down if we contracted. When MC = ATUC, we are

* Change in total costs due to the addition of one more unit.

at peak efficiency. Graphing cost per unit against output, we get:



and MC will intersect ATUC at its minimum. So far it looks as though we should produce where MC = ATUC.

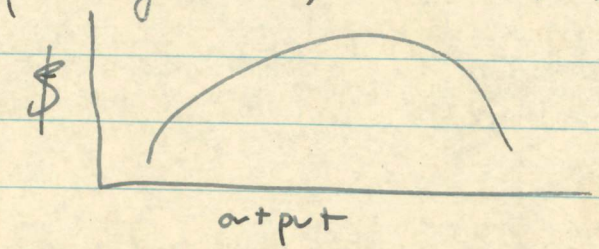
There are other considerations, however.

TR = total revenue

MR = Marginal revenue, increment to TR from adding one more unit to output.

AR = Average revenue, or price.

a) If the producer is a monopolist, he is faced, as previously shown, with this ~~~~ total revenue curve.

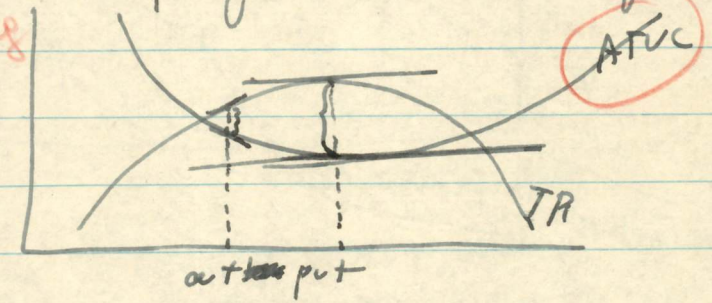


To maximize ~~~~ TR, he should produce where

it is a maximum, or where MR = 0 (if MR > 0, it is profitable to expand. If MR < 0, it is profitable to contract.)

It is clear, now, that he must produce when the difference between TR & TC is greatest. Graphing these 2 together:

You cannot get profits by comparing total revenue and cost per unit



We see that the difference is greatest when the tangents are parallel! The slope of the tangent to the ATUC curve = addition to costs by adding 1 more unit / 1, = MC, and the slope of the tangent to the TR curve = incremental revenue / 1 = MR; or profits will be maximized when MR = MC.

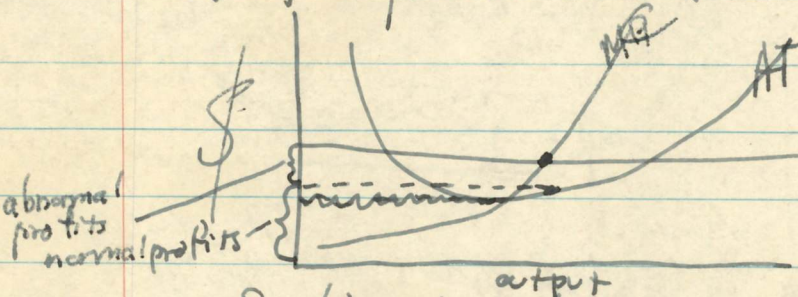
no: the tangent to the total cost curve = MC

Reason with that graphs shows this, too. If MR > MC, it would be profitable to expand. If MR < MC, it would be profitable to contract. When

MR = MC, profits are maximized.

All this reasoning assumes that firms will be in internal equilibrium — i.e., they will be

If the producer is a pure competitor, we will get:

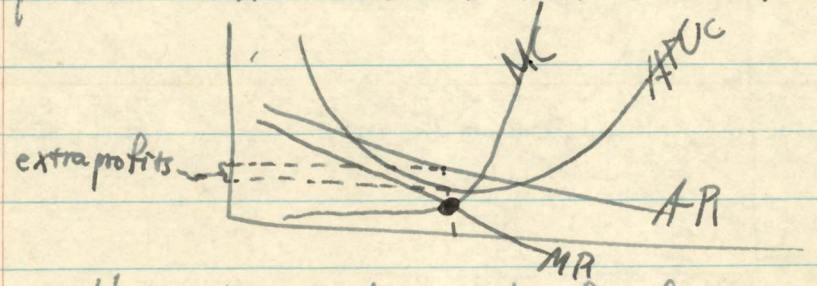


For him, to produce one more unit will mean to gain its whole price as MR, or MR = AR.

The principle that maximizing profits is where MC = MR holds good for all producers, so this producer will produce there. Included in ATUC, however, are normal profits, & as I have drawn the graphs, this firm is getting more than normal profits. Since there are no restrictions on other producers entering the field, some will, until the greater production drives price down to where ATUC = AR, & ATUC = MC. When a pure competitor is in equilibrium, AC = MC = AR =

MR.

Where there is product differentiation, each producer will be faced with this, demand curve:

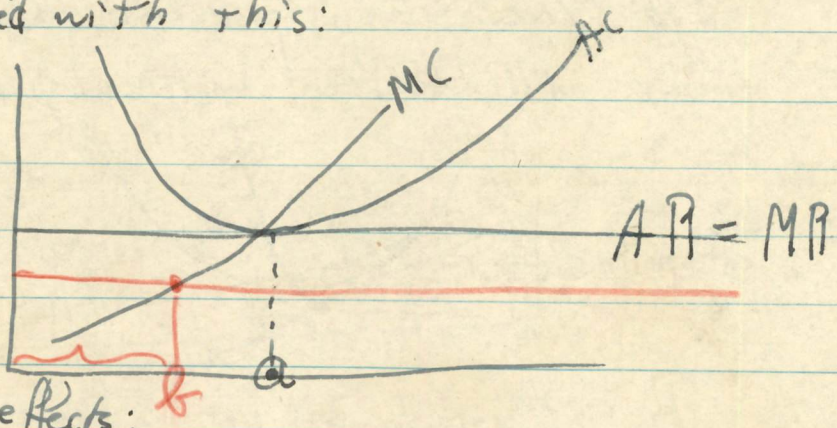


He will not, however, be free from competition, from other differentiated products, & competition will force his price down, & therefore his MR will move to the left will meet MC farther to the left, & he will produce less, until finally AR = ATUC, when there will be no more excess profits to attract new competitors. This will not be, however, where MC = AC, or peak efficiency.

Your exposé is marred by a serious mistake and by the complete omission of the considerations determining choice of factor combination, also asked for.

15/25

3. In perfect competition & equilibrium each firm would be faced with this:



Short run effects:

A decrease in demand would immediately lower price. Existing goods would, if possible, be stored, or, if not possible, be thrown on the market for what they would bring. If overhead costs are high relative to variables, the entrepreneur will continue production at output "a", preferring small to great losses. If variable costs are high relative to fixed costs, probably all will cease producing as much, & price will soon go up again.

If production is thus curtailed, average costs will rise, as is plain from the graph.

Marginal costs will be lower, unless the AC

impossible

curve is concave downward, which is unlikely.

Output of the industry as a whole will lessen, as will the output of all its component firms.

Firms will be faced with the problem of minimizing losses. Few will leave the field immediately, but will expect a good year to make up for this bad year's losses.

Long-run effects: (after forces of production have had time to reorganize)

Many firms will leave the field, and those that are left will be producing again where MC = AC, for price will have risen due to the decreased supply.

Output of the industry will be smaller, of anyone firm, just the same, & profits will be just the same. You did not use the analytical tools you were expected to apply. Such general talk as you make is exactly what you should "Capital is saved"

4. Capital is that portion of what is produced by labor on land which is not immediately consumed but is used to help labor

leave learned to avoid

9
16 2/3

produce more things from land. It is, ~~more~~ therefore, saved. ~~It is~~ The producer refrains from consuming it now, so that it may bring him more to consume in the future.

This is clearer if we consider that, to produce capital, there must be some leisure time, that is, time in which it is not necessary to produce ~~the~~ consumption goods, & this requires the pre-existence of a surplus, which must have been saved. Since the capital itself may be put immediately into use, it is not so clear that it is saved, but when we think of the previously saved surplus as representing the capital in this sense, it is clear.

"Capital is produced"

By our definitions, land & labor ~~were~~ are not capital. Everything ~~else~~ in the material universe, economically speaking, that ~~was~~ is not ~~land~~ land nor labor, is something produced by man, ~~it is, consumers or producers goods. Capital is a produ~~

~~Capital~~ While the ownership of men, or of

land, may give advantages equivalent to the ownership of capital, (in an economy where all thing considered property may be exchanged) they are not capital. It must be produced.

"Capital consists of the instruments of production"

~~Natur~~. Those things man produces and consumes are not capital; only those used as instruments of production are. However, from an entrepreneur's point of view, labor & ~~capital~~ land are also instruments of production, so this statement is misleading. It would be correct to say that producers goods consist of the instruments of production.

"Capital consists entirely of unfinished or 'unripe' consumption goods".

If we consider the labor expended in producing capital to be stored up in it, and then gradually released as the capital helps produce wealth, we can then think of capital as unripe fruit, & consumers goods as ripe fruit. The utility given by labor to

raw materials is gradually transfered from the capital, whose value is a "derived" one, derived from the consumers goods it produces, to the consumers goods.

"The operations of the ... etc. ..."

While the ~~existence~~ pre-existence of capital is requisite to many forms of large-scale production, and capitalists do pay laborers money before they, the capitalists, have been able to sell the things labor has produced, still there is no advance from labor to capital. The laborer has produced something, given it to the capitalist, & been paid for it. The difficulties of the capitalist are none of the laborer's affair — no advance has been made to him. I think this statement, unless interpreted in a different sense than I have, is wrong.

All of these statements tell certain characteristics of capital (save the last), but none of them is an adequate definition. That which I have underlined at the begin-

ning of this question I consider a good definition.

The first & second do not contradict if interpreted as I have done.

2 & 3 do, as shown in discussing 3, whose fault it is.

very good

The others (save 5) are harmonious.

15/16 2/3

5. This is not true. The advantages of large scale production, which occur when transportation improvements have widened the market enough to allow for real specialization & large-scale production, are:

1. Minute division of labor, which allows for the development of greater dexterity by workmen, & continual work, without time wasting stops & starts.
2. Simplification & repetition of movements, which makes machines possible.
3. Reduction of overhead costs (in many cases, & up to a certain point), by ~~consti~~ increasing

size.

4. Reduction in clerical expenditures (again up to a certain point)
5. Extra money to spend on research.
6. Advertising costs lowered.

All these advantages amount to this: in the production of many things, ATUC = MC when output is very high. (steel, for example) When transportation is so inefficient that large-scale production is impossible, these firms will find ~~optimal expansion with~~ MC < ATUC, continually, but when transportation is good, they will find their pt. of max. utilization of equipment. Many industries, such as dairying, find that they were producing at max. efficiency before the opportunity to expand was presented them, so they have not changed size greatly in the last 150 years, as others have.

A Corporation, however, is just a legal

form in which men unite in a project & have limited liability, as opposed to the unlimited liability in partnerships. This legal form is very useful in large-scale production, because many can invest small amounts in joint corporations without fear of being ruined if the corporation fails. Usually they are only liable for the amount of their investment; partners must pay everything they have.

But, this legal form which is essential in pooling the investments of many people, and the advantages of large-scale production, are far from synonymous. Corporations simply aid the establishment of large scale production. They are not synonymous with its advantages.

13
16 2/3

Meyers, Chap. 11 - Distribution of Income, or Prices of Factors

Derived demand for factors.

Equilibrium - 1) All homo. units get same price.

2) $\frac{\text{MP of A}}{\text{price A}} = \frac{\text{MP B}}{\text{price B}} = \frac{\text{MP C}}{\text{price C}}$

3) Prices = MP.

4) Lowest priced units must be employed.

Processes to obtain equilibrium.

Chap. 20 - Foreign exchange

Rate of exchange - the price paid for bills of exchange, determined by supply & demand.

1) A paying B increases bills of exchange on A, lowering A's rate of exchange. (B citizen tries to sell bill of exchange on A citizen in B)

2) A paying B increases demand for bills of exchange on B, raising B's rate of exchange. (A citizen tries to buy bill of exchange on some other B citizen)

Gold settlements. Triangular bill of exchange settlements.

Gold points - rate of exchange can fall no lower than cost of transporting gold allows.

When off gold standard, freely fluctuating exchange rates. But if we can buy Eng. goods at $\frac{\text{I}}{\text{£}}$, we buy. Demand for bills of exchange up here, supply up there, rate is stabilized.

Gold - countries must follow rules of game. 1) Lose gold, contract currency, export. 2) Gain gold, expand currency, import. 3) No tariffs.

Foriegn exchange banks - they handle bills of exchange in quantity.

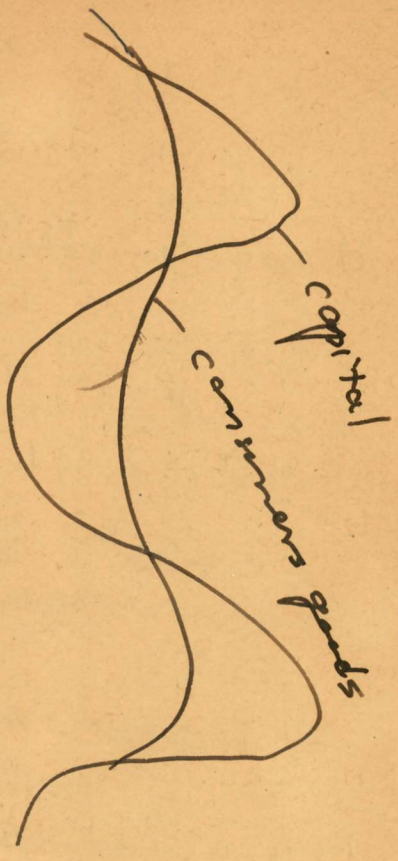
Ch 12 - Meyers on Banking ~~& Gold~~ Interest

1. caused by money preference all factors. ↑ Time preference, & liquidity preference. Opportunity costs. Loanable funds are mostly from banks creating credit, rather than savers. Risk.

Short term loans, lowest i.r.

Rent (Ch. 14)

Surplus of return to factor over minimum essential to make it produce is rent. Those willing to lend money at 2% who get 3% in market make rent.



DISTRIBUTION

Marginal products of all factors must equal prices.
" " " " " " " each other.
Mobility of factors therefore increases production.
Young countries have greater mobility, an advantage.
Law of diminishing returns, concerning bad factor combinations.
When MP of labor equals AP of labor, ~~peak efficiency is reached.~~
MP of land must be equal in all industries.
When MP of land equals 0, MP of labor is at maximum.
MP of labor must be equal in all industries.

Raising wage rates is bad, it causes unemployment, increased use of capital.
Unions benefit labor of a particular kind only.
Marginal productivity theory: all MPs are equal, and equalprices
Urgency of demand determines union success.
Trade unions may affect MP 1)Changing efficiency of labor
2)Reducing supply,(raising price?)
3)Making other factors more efficient)
Principle of accelerated demand: capital goods production varies more than consumers goods production
Bellshaped curves and inequality of income.
Profits: present policy of pushing down interest and raising wages causes technological progress.
Excess profits cause shift in industies.
Interest:long&short term loans.
MP of labor equals wages. Gov. minimum wage laws may 1) squeeze profits,2)increase efficiency,3)take excess profits,4)

MONEY AND BANKING
full-bodied, representative fullbodied, and credit money.
Call loan market for margin buying, sensitive.
Bill of exchange, or draft: an order to pay.
Banknotes: circulating promissory notes. Fed. Res. notes the only ones now existing
26%, 20%, 14% reserve requirements.
Fed. Res. Bank: a)Clearing checks,b)Fiscal agent for gov., forbidden to loan to gov. c)Supervise banking operations
d) Loans and investments.
Regular loans, and loans to member banks, with short term promissory notes as collateral. When Res. bank buys, members' reserves are increased, countrie's money is increased.
Quanititative control of bank credit.
(Gov. buys gold with Fed. Res. notes, increases money.)
1)Affect quantity of members' reserves
2)change reserved requirements.
1) Raise rediscount rate, discourage loans, shrink money.
Sell US securities on the open market, contract currency.
Treasury: shifts amounts of cash at member banks or Fed. Res. banks. Stabilization fund and social Security reserves.
MV equals PT V increases in inflation.
(DISTRIBUTION) Rate of interest, dual role. Lowering it stimulates business by lowering certain fixed costs, but lowering the price of the factor capital makes unemployment.
(MONEY) Credit expansion.
INTERNATIONAL TRADE
Theory of comparative advantage.
Balances of payments, which balance.
Correcting adverse balances:1)Let exchange rate depreciate.
2)Move gold.
KEYNES If savings are greater than net investment, downward movement sets in. Incomes go down, therefore savings go down,

and when savings equal investment, movement stops. (When new investment goes down, incomes go down. Falsity is that excess of saving over investment does not mean lowering of incomes)

INTERNATIONAL Under gold standard, excess of imports over exports will make exchange rate fluctuate until gold point is reached. Since gold sterilization we have not been following the rules of a free gold standard, but are under a managed currency. We buy gold & sterilize it to discourage export, keep up employment.

BUSINESS CYCLES. Keynesian interpretation. Replacement investment delayed, investment decreased. Then low prices of raw materials start investment again.

Brakes have been applied to banking system recently to prevent another boom:1Ø)sale of gov. bonds,2)raising rediscount rate,3)increase reserved requirements, 4)Sterilized gold imports. Depression, desire for liquidity strong.

PUBLIC FINANCE 3 principles of taxation. Proportional, progressive, and regressive in incidence taxes. Shifting, forward and backward. Income tax, personal and corporate. Recent inflation helps gov., a debtor. High elasticity of demand makes it hard to shift tax forward. High elasticyt of supply makes it hard to shift tax backward.

WAR New money incomes produced, without consumer's goods being produced: price increase results. Price system cannot produce rightly for war. How to handle:1)Maintain outflow of consumption goods.2)Curtail incomes3)Rationing and price control. Different reaction of monopolized and competitive industries to price-fixing. Taxing away high incomes will not stop inflation, it is only a political move. 1)increased production,2)Decreased consumption,3) Using up capital stodk, 4) Liquidating foriegn assets, these are cost of war.

sagged. '39-'41, 25% increase in cost of living. Canada: '40, wages
fixed, cost of living bonus. Unions object '41 Nat. War Labor Board given
wage control. Keynes' "ironration". America - Hillman, Lab. div. of Nat.
Def. Adv. Commission. '40, training program. Booley of Socony & &
T.W.I. Lab. Div. gets stuff at cost of labor. '41, Defense Mediation Board,
William Davis. Kearney shipyards union gets security others stimulated.
Lewis & captive mine strike, closed shop, bad decision, CIO members leave
Def. Med. Board. Strike settled, anti-union legislation pending when Pearl Harbor.
Hours, Wages, & prices: Skilled labor must work more than 40. Wage rates must
be ceilinged.

Ch. 5 - Financing the war effort - public finance

Rationing the war: deal harm. Price inflation: demand doesn't. Gov. finance
made difficult; injustice done to pop. Price rise stimulates production, but often the
wrong production. Cost of war increased. Incomes must be reduced. Taxes vs.
borrowing: borrowing in peace is from rich's unused savings, war time it also takes
from consumption. Last war, "borrow & buy", bad. Tax! before War I, customs & ex-
cise taxes the main source of revenue, upping them stopped consumption. Income tax now inc. &
inh. taxes don't stop cons, we must have more sales. Business taxes bad.
Nat. debt: borrowing doesn't curb spending. Debt may make people spend, fearing
inflation. Rising debts the rule. - should it be paid?

Ch. 6 - Financing war effort - business finance.

10-15 workers behind one soldier. Funds from 1) owners & investors 2)
Commercial banks 3) Business itself. (ec. rent?). Control: Financial - limit
credit of non-war industries, IR must be kept down. Private borrowing expands credit.
Misdirection of capital. Apr. 5, 1918, Capital Issues Committee controlling
security issues, no legal powers. Gy, controlled finance long ago, 6% limit on stock
profits, 85% cap. issues gov.'s, G.B., '39, control voluntarily. U.S. -, natural
decline in investment '39-'40. Banks - must lend to gov. 1st. ('33-'37, banks
loans did not increase to '29 level with recovery) (?) War increases
internal liquidity. In Gy, this went to stockholders, gov. forbade. France & Czechs,
00. G.B., ind. rev. on internal profits. (tho taxes). U.S., corp. taxes take it. '30,
undist. profits tax, now repealed. // Gov. aids to business: defense - War I - War Finance.
Corp.: credit for defense ind., McAdoo. operations small, bought bonds to keep price up.
Made money '17, Emergency Fleet Corp., spent $ to build merchant ships. Jan., '18,
Apr., '20, gov. rem. F.R., to keep them from competing in cap. market with
gov. War II - plenty of cap., unlike I, & gov. agencies already set up. RFC the
largest, shills, grants credit. Tax concessions. RFC loans, Pre-expansion,
Defense Plant Corp. loans. (RFC sub) Gov. Plant Construction. War I
Socialism (Wilson Dam) led to TVA, Lockart. - Miscellaneous -

Intro. to War Ec. – Neal

Ch. 1 – Basic Ec. problems of war:
Nature –: Real vs. Pecuniary in wartime –, Real resources available for war:
General sources — 1) Increased production 2) Decreased personal consumption –
last war, 32 billion cost, 13 from increased production, 19 from decreased cons.
3) Reduced investment in these new forms of capital not essential to war (same as (2))
4) Depletion of existing capital. We may spend our gold for materials. Eng. has
liquidated foreign investments. 5) Loans foreign 6) Loot / Magnitude of war –
50% nat. income the exp. Capital account (#4) & current account (#2) sacrifices.
66 billion, Sept. '41. / Why normal comp. processes are stopped in war — price
system becomes rapist. Necessity for speed, economy, ec. wars minimizing
post-war dislocations, maintaining morale.

Ch. 2 – Ec. war potential (capacity of resources)
Steel – Russ. increase to = Gm., '37.
Coal, iron, steel. 2 – 1 advantage, most in U.S. / Alloy metals – Mn., Ni, chrome,
W., Mb. – 9 – 1 advantage. / Others – Aluminum, 50-50. Antimony from China.
Lead, 4-1. Magnesium, 1-4. (tho we have as much raw) Hg. – 1-3. Tin, 9-1,
but they're getting it. Zinc – 7-3. Rubber 9-1. (but) Oil 9-1.
Textiles – we have em. Food – Ew. has enough, Eng. don't. Pop. – 3-1, incl.
China & India, actually they outnumber us. Axis loses men producing & sale, U.S.
per man productivity high.
Labor potential of U.S. – 53 000 000 workers. Recently increase in hours of
rural labor, not industrial. (1½ – 3 000 000 priorities unemployed) Women to
work – 400 000 so far. '41, 3 000 000 unemployed, 7 000 000 women. 15,000,000
increase in labor force possible, at 50 hours a week. Shipping – sinking rate –
14% sunk to July '41. Shipbuilding – '37, 50 ships, rate going way up this year.

Ch. 3 – Problems of war production
Gov. has to take over, as pt. in war I. Priorities, '39 – '41, 60% production
increase. Steel capacity has been utilized, that's all. 80% new war plants gov. financed.
Subcontracting – trouble. Aug. '41, Defense Contract Service. / Priorities, '40, bad distribution
of work, Oct. Priorities Board, by May, '41, working hard. Blanket ratings – long time
save just for one order, since March '41. But emergency advance orders, things get
tangled. Limitation orders – stopping auto production, eg.. Inventory controls on
metals. Allocations – voluntary pools before May, '41, then stuff taken &
allocated. Late '41, all allocated.

Ch. 4 – War Labor problems:
Keynes & deferred payments or compulsory saving plan. England: control of
employment Act. Bevin, minister of labor. '40, '41, dock workers controlled. Unions
& shortage of skilled labor. 70-80 hour weeks, after 2 weeks, productivity

rise checks supply & even Gestapo cannot keep prices down + low. Income control is needed. Defects of price freezing; does not adjust to wear fast. Administrative problems. Goods will deteriorate. It's paternalism. Selective price control practical. // Rationing & consumption restriction; price control must accompany rationing. Indirect restrictions – priorities &c. Direct rationing; complicated.

Ch. 9. Economic Warfare

Definition & weapons; Naval blockade. 1909, Declaration of London, old style, now out. Boycott. Finance, credit seized. Preemptive purchases. Aerial war, hit bottlenecks. Passive resistance, slow-ups. / Gy. accumulated for this war. Dominated S.E. Europe. Naval blockade, U.S. out, no courts. Blacklisting, world wide. Italy & Japan thru Russ. loopholes. Swedish iron thru Narvik, Axis took it. Then France fell, & all Europe. Rationing. Exploitation. Oil &c. from Russ. Then attacked Russ., problem now tough. Ec. war & U.S. – April, 1940, Denmark & Norway accounts blocked. June, '41, all Eur. blocked. July, Jap. blocked. July, '40, Export Control Act, May, '41, Philippines added. July, '41, black list & U.S. Am. Repubs. Much bought from S.A. July, '41, Axis shipping seized. July, '41, Ec. Defense Board. // Jap. & Ec. war — Jap. hoarded materials, grabbed more.

Ch. 10 – Post war international economics.

Transition – Physical destruction terrific. Industry maladjustments – factories being built in S.A., Wheat in last war. International payments dislocated. World war, position of U.S. changes, import for export. U.K., Brit. getting rid of foreign assets. Free Trade desirable.

Neal.

Ch. 7 -- Wartime Management of the Monetary & Banking system.

Money is no obstacle in a war. (p. 142) Creation of new money, a power to borrow, let inflation wreck public b) control, tax. 1) War means creation of money. tax. Easy to impose brings results Requisitions from banks in F, Target $, a)

2) This is taxation, & it stimulates production. 3) (2) soon supersedes (1). 4) Controls

5) Still moisture in ckt. 6) ? X. changes in velocity of circ. increases. Bank credit moves faster too. Pre-war 1) Fed. Res. bought gov bonds 2) Gold & cap. to U.S.

3) U.S. buys silver 4) Banks buy bonds. Gold increased member bank reserves. Members bought silver, much of it bought reserves. So when war broke out banks were already financing gov; could do no more. But banks created credit for gov., with excess reserves. (from gov. spending) 134, new gold valuation, Exchange Stabilization Account of 1.8 billions So, plenty of credit. Gov. checks it. Civilians still need credit.

Savers & savings banks & the real war fund: (if you take $ from bank to buy bond, you shoot deposits to gov.) But this means banks must call loans, make people pinch. (If gov. borrows from banks, same effects) (p. 161) War bond buyers work no harder than otherwise, unless they take it from consumption.

Effects of bond selling 1) Drain the deposits to gov. 2) savers give direct to gov. 3) starts payment for real war fund.

Ch. 8 The Control of Individual Prices

Background: difference in $ income & goods causes inflation. (relative) Price distortions: Causes - 1) change in character & elasticity of demand 2) Spec. hoarding 3) Import & export stops 4) Cost changes 5) Taxes up. Direct price control only for distortions, not inflation. Control of gov. purchase prices to keep exp. down. Control of civilian prices - 1) stop profiteering 2) Equate burden 3) stop panic demand run prices 4) ? 5) Public faith up 6) Post-war readjustment simplified. Methods: (1) bonds in last war 2) for raw materials (max. profits, not price, set) Gov. purchases - non-c. & competing. Bulk-line principle - great variation in different producers costs, set price above necessary marginal producers. Graded Price principle - cheaper, but unfair (?) Civilian price control: Food abundant. Farm bloc demands "parity" (1909-14) Farm supply inelastic. Since Aug. '39, 50% increase in farm prices, restrictions & rising incomes cause. War I, min. price guaranteed on wheat & hogs. Control of retail profits. Shortage of material control - gov. gets at low price, puts rest on market. Aug., 1941, Baruch's plan: Price-Ceiling Plan - 1) Frozen prices 2) Max., not min., frozen 3) Ind. prices can be changed by authorities. 4) Some rationing 5) Gov. monop. of foreign trade 6) Supplementary methods need. This prevents inflation. But failure of prices to

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I.

Credit by country A against country B appears as a balance of credit to A in the ~~bank~~ central bank of B. This is balanced against the excess of imports from A to B. ~~But this~~ It is simply a debt balanced against the recognition of it.

But if A's ex~~im~~ports to B continue to exceed its imports from it, some adjustment must be made. There are 5 ways of doing this. 1) If the countries are not on the gold standard, the exchange rate may be allowed to depreciate, thru demand for B's currency slackening. 2) The currency of B, if it is on the gold standard, may be allowed to deflate thru the export of gold. This will stimulate export from B. 3) The authorities may devaluate the currency, accomplishing the same thing as (2) 4) ~~Direct~~ Direct Control of trade may be used. 5) Tariffs, (import duties & quotas) may be used, to discourage imports.

very good, 20
but does not answer the question

II $M V = P T$

M = amount of money; V = velocity; P = price level; T = volume of trade

The formula shows that price level varies directly

with the amount of money. This principle underlies the inflationary and deflationary effects of changes in the volume of money, which are part of gold standard theory. When gold is exported, volume of money is less, so prices are less. This encourages the export of goods, and therefore imported gold, and keeps the rate of exchange nearly always constant. Very good 23

III. Trade is the exchange of goods for goods, money being only a tool to facilitate it. A country, therefore, cannot in the long run export more (by value) than in imports or it would be losing in foreign trade. Similarly, it cannot import more than it exports in the long run, or other countries would be losing.

In the short run, however, a country may not have equality in its exports and imports, making up the difference by importing or exporting gold, or by having credits given it in foreign countries. Or by "invisible" imports or exports. 18

IV Import duties are an indirect tax. They raise the price of goods for consumers in a country. Their purpose is to encourage home industry. However, exports must always nearly equal imports, so although greater employment is given in some industries, other industries will have to contract, since their foriegn markets will be cut away. Wages are not raised (unless a bigger excess profit is there for a union to cut into), but land values are, by import duties. Political log-rolling is common in determining tariff rates. Foriegn trade is greatly reduced.

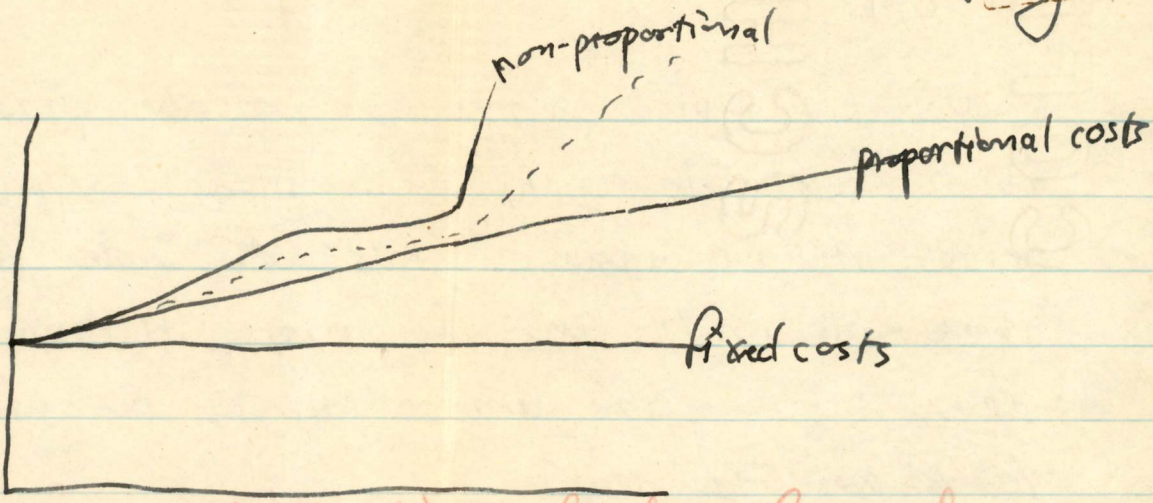
Good 20

20
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Godfrey

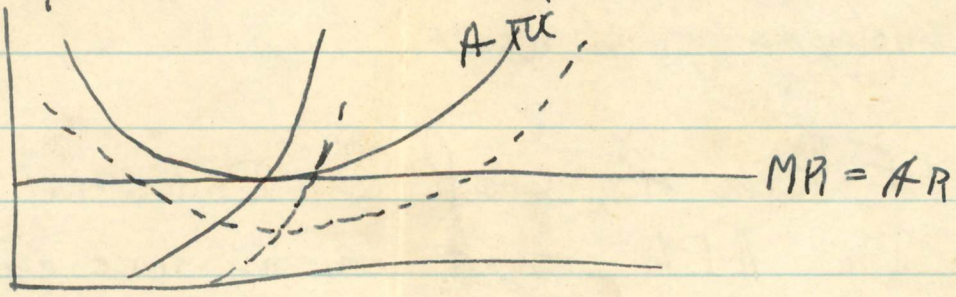
Mason Gaffney

I) a)



If you assume (as you do) overhead unchanged

The labor-saving device ~~may~~ will most probably affect the marginal productivity of labor & lower, therefore, non-proportional costs. Assuming free competition, the short run effects will be to lower the cost of production all around & in particular at the pt. of max. efficiency & result in abnormal profits for all entrepreneurs.



MC will = MR at a pt. of greater production, so production will increase. (beyond the pt. of lowest costs?)

b) In the long run, the abnormal profits will call new entrepreneurs into the industry, and their

production, coupled with the greater production of each firm already in, will increase supply and lower price until it again equals ~~MC~~ ATUC. There will in the end be more firms, each producing about the same amount as before but altogether producing more.

The effect on labor will ~~be less in the short run, be~~ in the short run, before there is enough expansion to take up the excess, to cause unemployment. In the long run, if the market demand curve is elastic enough, employment may be increased. If demand is inelastic, so that the lower price does not cause people to buy more, unemployment will result.

A valiant attempt to use your tools. You mention elasticity of demand (good). But you fail to consider factor prices. 35

II Effects of Craft & Industrial unions

The AFL craft unions, since each group is so small, tend to forget their responsibility to the industry, since the effect of a wage increase in each small group on the industry is so little, & ask for wages so high that ~~the industry~~ costs go up so high that unionized industrys cannot compete with non-union ones. Industrial unions tend to

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This sounds somewhat too strong

be more reasonable in their demands. However, industrial unions do not ask for a big differential between skilled & unskilled labor, so industries thus unionized hire only the most skillful laborers, leaving the others unemployed. This, however, happens in all unions.— their method is to artificially raise the wages of members & thus make it necessary for entrepreneurs to bring in machinery in order to make the marginal product of labor equal its cost, and leave some unemployed. Craft unions, after the early period of membership campaigning, become exclusive, keep out young laborers, discourage training, etc., so as to reduce competition. When they do not keep new men from being trained, but do stay exclusive, new firms tend to grow up using the non-union labor, and take the business from them.

The CIO Industrial unions, being still young and trying to make a place for themselves, campaign for members earnestly; but members of industrial, as well as craft unions, when they have a closed shop & searcity, albeit they cause unemployment to others, tend to be exclusive.

Craft unions are organized by skills,

jumping lines between firms. ~~The~~ Wage rates for them, therefore, affect a whole industry equally, and do not put any one particular entrepreneur out of business. By raising costs, they do put the least efficient out.

Industrial unions, all workers in one firm joined, ~~do~~ put that one firm at a disadvantage. They are most successful when the firm enjoys some monopoly profits, which the unions can cut into. If there are none, industrial unions put their entrepreneurs out of business. if they are unreasonable.

III Monopoly of a natural resource causes it to be ~~used~~ too little used — & the labor that might have worked it becomes unemployed. Monopoly of labor by unions causes unemployment also.

II. On the whole quite good : 39

III is very incomplete & therefore disregarded

39
35
74 C+

March 21 - Quiz

Mason Gaffney

I. When the Fed. Res. banks want to sell gov. bonds and offer them to all buyers, ~~perhaps through an~~ or when an investment bank (security merchant) wants to sell a bond issue in the same way, it is an open market operation. This is in contrast to a private affair such as a loan from one party to another. They signify a loan from many small, independent parties to one party. The Fed. Res. system uses open-market sales of gov. bonds to control the quantity of money, selling to contract it and buying to expand it.

20

II The commercial banks receive interest for the credit which they grant in creating a demand deposit. This is the commercial bank's chief function, so it is to its interest to encourage demand deposits as much as possible. They receive interest only to extent that deposit arises from credit operation. But ability to perform such operations depends on how generally payments are made by check.

18

III. Legal tender is money which, by government law, must be accepted in payment of debts, public and private. This does not mean that refusal of the creditor to accept the tender absolves the debtor of the debt. (according to the book, but it sounds queer to me)

Convertible notes can be exchanged for bullion at the treasury; representative full-bodied money can be exchanged for full-bodied money - that is, coins whose actual material is equal to their face value (that is, they have no seignorage value) the value of

20

Convertible notes are not fully "covered".
Rep. full bodied money is fully "covered".

IV. a) Commercial banks must keep, by law, reserves in the Fed. Res. Bank of 2% 6% of their demand deposits (including those in which no credit creation was involved) if they

M. Gaffney

are in one of the 12 Fed. Res. Bank Cities, 20% if they are in a city with a Fed. Res. branch office, and 14% if in a city with no Fed. Res. office at all.

b) The Fed. Res. banks themselves may create demand deposits, backed by 35 80 % cash reserves. ~~They~~ may issue Fed. Res. Notes backed by 40% gold certificates.

22

20
18
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22

80

B

Prepare specifically for tests with outlines.

ENGLISH

SECTION____

Name_____

Date_____

Credit Creation – (credit expansion paper)

Assets	Liabilities
Building etc, 50,000	Cap. Stock 100,000
cash 50,000	

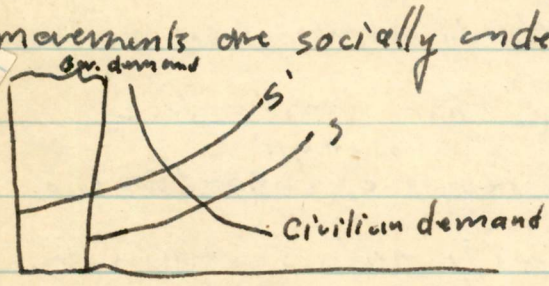
Man wants 200,000 – give him credit for it. Exchange of claims of different maturities.

Man's note for 200,000	Demand deposit – 198,000
	Interest 2,000

Clearing

Staehle - May 16

War economy is just exageration of Keynesian process. New incomes produced without consumer's goods being produced. New demands call for supplies for which existing equipment is insufficient. - bottlenecks. Keynes idea works only if there is ready unused capacity, i.e., no bottlenecks. Price increases are contagious. - wage increase will spend itself in that. In peace, bottlenecks cause price increase, resources flow to them, they are cured. But in war, . Idea that private enterprise can meet war has been discarded. - it would take too much time. Too, entrepreneurs will not expand for short time only. Steel - TNEC investigating monop. power attacked it for having unused capacity, because prices too high '40 objected to industry, it was unwilling to expand. Also, private business will react to price movements, not make right investments. Idea that price movements are socially undesirable. (altho movements indicate competition)



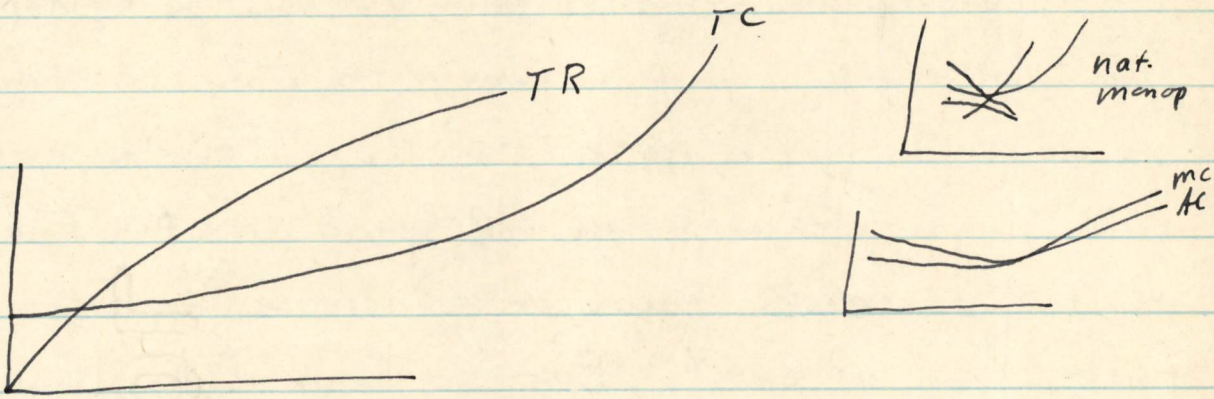
addition of gov. demand puts up price.
Gov. demand is inelastic, depends not on price.

3 main ways to handle situation.

1) Maintain (Increase) outflow of consumption goods
2) Curtail incomes
3) Rationing & price control

1) Is capacity available? Monopolies are accused of not utilizing

capacity. Today, not true. "Redemption of monopoly." Fact of overhead costs prevents free competition.



MC is indep of fixed cost, but not of AC or price of vble factors
MR would be indep of fixed rev, if there is such, but we usually assume not.

If USS has idle capac, then MC = MR below full use of fixed cap, which is probly below ATVC. Those monops that depend on holding land idle will produce below ATVC min output; nat. monop produce below it too. The only monop that would produce above it is one which owned a unique resource, patent e.g. demand was so great it used it intensively, it did not have to hold its ownings idle.

In depr, note monops will tend to hold things idle, ↑ owning marg prod, while comp cannot.

Stavenke - May 23

What is Eng.'s postwar going off gold all about? Rigid wage scale stopping exports. (?)

Figures: Fiscal 1943 (July 1 - June 31) estimates.

Aim - Keep nat. income at 120 billion, keep cost of living at 115 of '35-'39. (this out of date. Taxes now up)

State, loc, & Fed Taxes. 28

92 remains to people

Fed exp. - 62 (regular 6, war 56)

120 - 62 = 58, consumers must be made to spend only this out of 92.

People will save $\frac{13}{14}$ of something, will ∴ keep 86 $\frac{1}{4}$ of 92, which = 1.5, inflation.

But

1) Suspension of all replacement investment. 12 per year. Prevent firms from buying them, thus reducing incomes by that much (this old fallacy again - uggh!) - this money will then be saved, instead of spent.

2) Restriction of production of durable & semi-dur. commodities, 18% total exp. 16 $\frac{1}{2}$. Assume they will not spend money elsewhere.

This brings things down far enough.

Chart book - relation between treasury cash income (not including bond income) & outgo.

Compare with orders placed with durable goods producers.

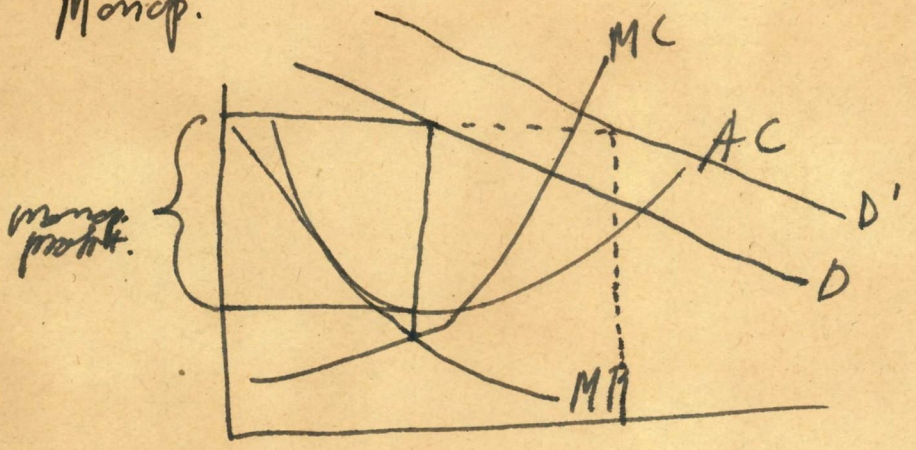
Staehle - May 19

Limits to increase in vol. of consumption goods. They cannot increase as fast as incomes in war. Cutting incomes causes greater howl than cutting wages. Voluntary lower prices unthinkable. 110% parity prices now guaranteed. (parity - same relative position as 1909-14 the theory; price ratio control the method? This is far from guaranteeing theory of parity?. Basis for subsidies to farmers, if they plant what gov. wants) Gov. program is subsidizing immobility, storing excess wheat, gov. owns 80,000,000 bushels, now has war use. // Various forced savings plans. Taxing away all incomes above $25,000., or even $5,000., will have practically no effect on restricting cons. 1936, 2/3 units had less than $1,450. annō, (39,500,000 cons. units.), had 34% nat. income ($20,000,000,000). 2.4% units above $5,000. annō, had 20% nat. income, ($12,000,000,000), saved about 1/2 of it, mostly the richer. 1/14 all nat. income is saved. Farmers & laborers wages have gone up more than profits. By taxing away all above 5,000., 8-9% borrowing would be replaced by takes. What would this do to inflation? 1935-6, 1/2% units had $5,000 & over, with 10% nat. inc., saving 62%, ∴ accounting for 4% expenditures. Taxing this away would do little to stop inflation. So this measure is only a political move, to appease those whose incomes have to be cut.

Chart book a big job. Staehle - May 16

Importance of supply conditions. Gov. exp. also create many new incomes, thus raising demand still more (since borrowing will come from rent savings) Entrepreneurs producing for non-ec. market. So they do not pay much attention to efficiency. They run no market risks! Maybe, after war, employment can be retained, in production of consumers goods. Malayan rubber will probly never after war resume their importance.

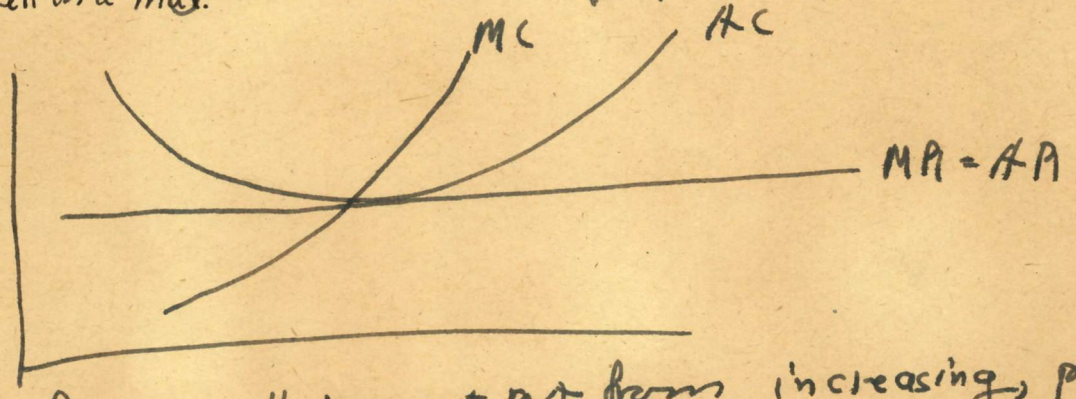
Monop.



New demand curve shifts to right, much monop. profit added; unless you fix price. (-----) - he will increase production till it hits new demand curve.

So price fixing makes monop. produce more. If it provides a min as well as a max.

Comp.



Price fixing will keep out put from increasing, price raise will make it expand.

3,000,000 unemployed right now.

savings. Such loans create more money, make inflation. Inflation imposes "forced saving" on fixed money income groups, meaning they get fewer consumption goods. People may hold savings as idle balances, (this must lower i.r., but may not cause investment) Low i.r. not enough to encourage investment. Other factors must be considered. Vol. of investment varies more than that of eats. Booms - big investment & output.

4) The Trade Cycle

Upswing increase in amount of money, decrease of liquidity desire, velocity up. ('25-'29, prices in U.S. did not rise.) Waste in depressions not so extreme.

Recovery - begins with investment revival, maybe in some new industry, or by gov. printing press money. Reductions in wages stimulate recovery. Products goods are much needed, This starts recovery. Liquidity desire lessens. Optimism. Prices rise, increase in amount & velocity of money. What ends this prosperity? - Money - deflation should stop boom. Demand for, says Hawtrey should be sated, factors thrown on market. Or rise in costs (int. & wages) may stop things. Or people may save too much of higher incomes, diminishing proportion is spent, demand increases too slow - no good because this (365) means low i.r. at end of boom, which ain't so. // Process of contraction, like expansion, is cumulative.

G & H. - 21: Business Cycles

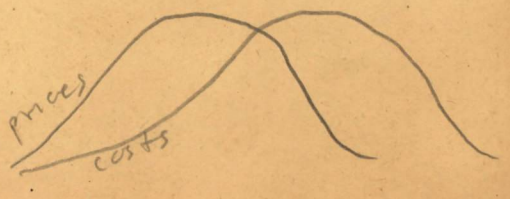
Rhythmic fluctuations. Prosperity phase — rising prices, selling prices more rapidly than costs. Wage rates lag, i.r. too. Rent fixed by long term contract (but not) Raw material prices up as fast as any. But still profit margins increase. After capacity production is reached, prices still rise, orders are left unfilled (this causes new enterprise to bid for land). Individual demand schedules rise, more paid for same quantities, but rise of demand is based on bank credit. But credit exp. reaches end, prices drop, crash.

Crisis phase - prices drop, wages continue to rise, & cost items catch up with selling prices. Rents up. Profit turns to less margin. Rush for liquidity, stocks thrown on market. Banks rushed, credit frozen. Then credit thaws out, bankruptcy for some. All contract as much as possible.

Depression - bank loans & deposits reduced, reserves high.

Recovery - increased investment in fixed capital etc. Then a few timid leaders discover it's again possible to produce. Soon prosperity

Costs reach peak after prices do (!?)



D. & L., (cont'd) (wages)

1938

Wages – 68.1%; dividends & interest, – 12.7%) entrepreneurial withdrawals – 16.2%; Net rents & royalties – 3.% (how hard) (national income a good approach to non-productivity of landlords question) physical volume of production now higher than in '29.

3. Influences affecting production.

(Erewhon?) Nature, capital, factors, utilization of em.

4) Factors of production.

B & L. B & L

25 7, 10, 20, GB H, 21, 22.

26 review Luth., 12-18

27

28

29

30

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5) —

D. & L., Ch. 10 – Capital

1) Def. – stock of goods of all kinds, including land, existing at a given moment.

2) Accumulating it requires sacrifice

3) Maintaining capital intact.

4) Capital consumption.

5) 1 Improvements in one line may increase production in another by freeing factors, if the community wishes. 2 Many stages of cap. use may be chosen Item 3, repairs must be made 4, stocks of goods

Ch. 20 – Ec. progress & the Trade Cycle

1) The Ind. Rev. & after.

Pop. Eng. & Wales – 1801, 9 000 000, 1938, 40 000 000. Bigger increase in vol. of production. Shorter hours, too. Interrelation of progress in different fields. Reduction in transport costs & Am. wheat fields, c. 1880.

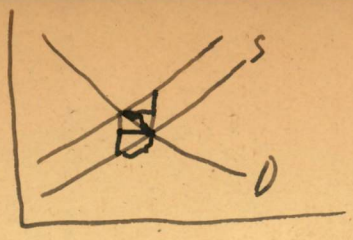
2) Causes of ec. progress.

Technique is what was mainly changed. Invention a gradual process of improvements. Increased amounts of capital, & of investment. Increased division of labor.

Checks – War – inflation; overpopulation – India; depressions, connected with

3) Fluctuations in investment

Investment = producers + durable consumers goods. Money for it comes from



If 2 curves have same elasticity, price will rise by $\frac{1}{2}$ tax.

(Why is price where supply = demand?)

Financing the war effort - making war goods.

Keynes calls wasting money on war "investment".

People with war money want to spend it, this would mean inflation

Idea that high prices are socially undesirable, because they hit poor. This lack of faith in price movements as pilots foreshadows planned economy.

What can you do about inflation? Incomes are too high, supply of consumables too small. Solution - cut incomes. Decretal price fixing will not work - people will still have more money than there are goods.

Take any one speech of Othello or Iago & show how it contributes to his character. -500 words.

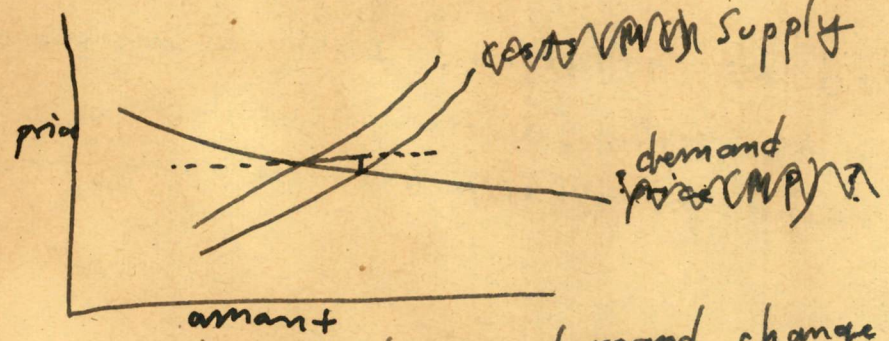
Staehle - May 12

2 basic theories regarding shifting of indirect taxes.

1) High elasticity of demand, tough on producer

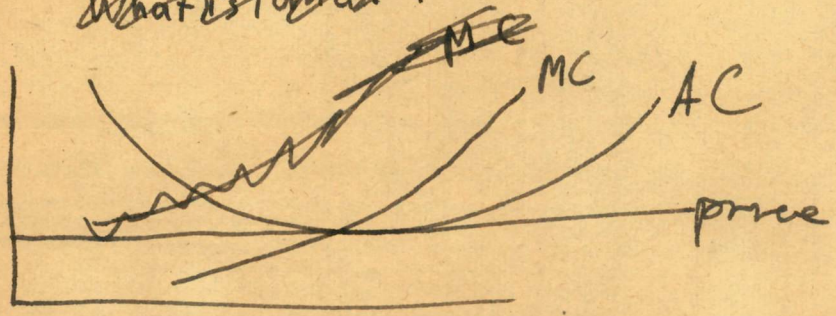
2) Low " " " " consumer

or high elasticity of costs,



Completely elastic demand, change expressed completely in quantity.

If demand is completely inelastic, whole change will be expressed in price, none in quantity.



Tax will increase MC, he will offer smaller amount, market supply curve will decrease.

2) More elastic supply curve, the more will tax be added to price

Luth. -2

Loc. gov. units - state leg. & their credit limit. '31-'35, much defaulting.

Ch. 18 - Principles of Public Credit.

Borrowing just, in 1) Fiscal emergencies, ('30-'33, education exp. reduced) cash reserves, dea. 2) Tax-anticipation borrowing. (w/ thin one year) 3) Borrowing for current expenses 4) For capital improvements (Panama Canal) 5) Publicly owned enterprises.

Ec. effects of public borrowing: price level, $MV=PT$. Bonds may increase M.; production - that of gov. demanded goods rises. Lower purch. power of all means less demand for other things (how about savings?) Higher i.r., checks production. Paying off debt reverses procedure; on distribution - dole, & deps on taxes.

Luthringer

Ch. 12 - The Public Economy

Nature of it. Comparison twixt pub. & private — no profit motive, less efficiency — Compulsion — no choice but to live under gov. Gov renders intangible services. Long history of gov. Education, roads, & war — ½ gov. exp. in 1930. '31-'37, gov. spent more than 1781-1906. States up too. '29-'34 local exp. fell, Fed doubled. In all centuries trend up.

Reasons for growth in gov. exp. — growth of pop, rise of price level, urbanization, rise in living standard, (states with lower incomes per cap. have lower exp. per cap.) Unemployment relief etc.

Ch. 13 - The Revenue System

Types of gov income — land, public monopolies, lotteries, taxes. "Special assessments" on land owners. (Wacker drive)

Nature of a tax. (⅘ Fed revenue from taxes) Gasoline & real estate taxes are acc. to benefits conferred. Tax may be used as tariff.

Problem of equity in rev. system. 3 principles — cost-of-service principle, benefits, & ability to pay. Proportional, progressive, & regressive taxes. (Graduated) 2 prog. taxes — income & inheritance. Others are regressive in incidence, tho not in rates. Criteria — fiscal adequacy,

Ch. 14 - Tax incidence

Shifting, forward & backward. Conditions for shifting. — price must be changed by tax. Supply reduced. Tax increases cost of production or raise price. But tax on pack of cig. Factors affecting shifting: — size — may be too small to affect; size of taxable area — bigger the shiftier; effect of tax on supply — strikiness; on demand — elasticity; use of revenue — hog restriction; Tax capitalization: — land value lowered. Conditions — 1) Thing must have future income expected 2) cap. value 3) tax on shifty. 4) tax exclusive. Security

Incidence of various taxes: — Gen. prop. tax — part direct, part shifted. Pers. e.g. prop. may decrease demand, be shifted backwards. Real prop tax — on land, capit., on house, shifted. 1930, ½ U.S. families in own homes, & then no shifting possible. But tenants can be shifted onto. Urban land — tax capit. Agr. land — not shifted either, does not affect prices. Tax by area would drive marginal land out of existence (I say lower margins too) & raise prices. (assuming tariff) Bldgs — like any other wealth. Net income tax — not shifted. Corp. income tax — paid only by net-profit orgs, comp. from non-profit orgs. — does not affect MP. — but discourages investment. Other taxes — inher. & estate shifty.

Ch. 15 – The Income Tax (2 types) (2/3 states)

Personal: Fed. 1864–1872, '94, unconst. 1913, 16th amendment.
Rent of one's own real estate not counted, as in Eng. 3% only pay it; exemp. over $4,000, graduated, segments of earned income credit. Under
$2,500. Rate structure – normal tax & surtax; & earned income credit. Under
$14,000, 10%) Capital gains & losses (speculation) – less & less taxed the longer
held. Deductions for it. Tax-exempt securities – salaries of state & local employees
& int. from state & local bonds untaxable. States cannot tax Fed. bond income.
Most Fed. bonds tax exempt. ('30, banks & ins. co. held 31% nat. debt; '36, 62%)
Banks exempt from high surtax rates. State. – 1911, Wisc., the 1st. Deductible from
Fed. Low & prog. Double taxation – sites basis
Corp. & Business net income taxes: – ½ inc. tax rev. from them. Not according
to ability to pay. Fed. Corp. inc. tax – 1909. Uniform rate till '36, when
progressivized & surtax on undistributed profits. Corp. law was used to escape
pers. inc. tax, so undistributed profits tax. But this makes corps vulnerable
to bad times: State – most progressive. Interstate problem. Inc. tax &
business cycle – '30 – '33, 69% decrease in Fed. Inc. tax yield. Prop. tax
more stable – same for delinquency

Ch. 16 – Property & other taxes:

Fiscal importance – most rev. from it. – ½. 9/10 local gov. 1902–'52, decline in
state dep. on prop. tax. – new state taxes. Nature: "uniform rule", all prop. to be taxed at
same rates c. 1850 everywhere. Administration – assessment. (Assessors locally elected,
1) little training 2) Determine how much $ wanted. (rate, levy, assessed valuation) Many small
authorities to levy taxes. 3) Collection. Defects – 1) Ability to pay not observed 2) Uniform
rule 3) Crap. (Pol. pressure generally influences assessors) (Unjust double taxation –
crap) (Corruption in pers. prop. tax), so that gen. prop. tax is real est. tax) Assessments
all too low. Discrimination.

Other taxes; Inheritance – N.Y., 1885. Fed, 1916. Now: Fed. gift tax.
Highway user taxes – N.Y., 1901, for revenue, finance. But roads increase land value.
Sales tax – not here till 1930, when ½ states did. Regressive (?)

Ch. 17 – Public Credit

'33–'34 legislation to raise prices, $ devalued, gov. as debtor gained.
Post war Cy & Fromer. States. Control – Integrity, pay debt,
don't pull wires in selling bonds, Limitations – Sovereign gov. units (forced
don't pull wires in selling bonds, or use pressure
loan = inflation). State of gov. credit & conditions of credit market determine

A. C. Veal ed., Intro. to War Ec., Ch.s I-X, buy it.
Luthringer, Ch.s 12-18.

Pre-Keynes idea, re concerning business cycle. If replacement investment is delayed, incomes are decreased (by false calculation), thus hastening downward spiral. Then people start hoping end is near, start hoping for improvement, take advantage of low prices of raw materials (& other things), recovery comes, replacement having started. Replacement raises incomes (false) (maybe true - savings are spent instead of being saved) Lower wages does not stimulate upswing, because they lower demand. But low raw materials prices means simply diminution of savings (?)

Steady, but less spectacular unemployment, in Eng. 1-2, ave, and all the time. (Eng. pop. 43, answer) Rate of un. c. ½ higher in U.S., at bottom. (Keynes, under-employment equilibrium theory. - i.e., savings may = net exp. when there are unemployed.

Germany, huge debt in war.

Inflation the best way to do after war.

Cap. system has worked only because it was expanding.

His postulate - if there is saving without investment, it is impossible to maintain level of national income.

New assignments, done next week.

Luthringer 12-18, Public Finance.

Distinction between fiscal policy & public finance has vanished, in connection with war.

Chart books up to date in 2 weeks.

Nat. income. Consist of real commodities.

Total retail value of all final goods & services

or (Net income of everybody.) just my idea, includes land values.

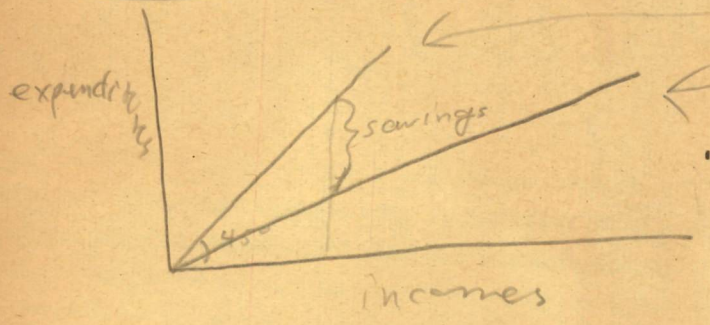
~~Investment goods~~ (depreciation changes included in prices) (Then must add expansion capital, although this too, may be sometimes included in prices, making these figures just estimates)

If everyone spent everything he made.

Actually,

Retail value of consumers goods = 60

New net investment (expansion cap.) = 10



Stable, asserts

Only if system expands to same extent that people save, will it work all right, since people do save, anyway.

But if demand for savings go down, people will increase their consumption, & industry will expand, etc.

But these savings are not determined by i.r., rather by desire to have security.

Furthermore, they do not affect i.r. (I think he means they take a long time to do it)

Analogy between balance of payments & income statement

Get Hugh's test.

Profit or loss, residual item, makes balance sheet balance.
So does balance of payments.

Balance of payments must balance because income & outgo must be the same, not for definitional reasons.

Gold plays part similar to that of bank reserves.

Gold also will "expand", like credit expansion.

Look into this analogy for final exam.

National income

Undistributed profits generally not counted as incomes, of course.

But ~~wrong~~ added capital is counted as part of income.

This is wrong, causing double counting.

Housewives not included.

Domestic service. - its part of his expenditure as a consumer,
∴ is not deducted from gross to get net.

Maybe Replacement capital is counted in value of final goods, each year.

But expansion capital will not appear in final values until ~~the~~ the years ~~w~~

Depreciation allowances have already accounted for this value.

Capital - larger role - more than I.R. = MP of cap.
1) represents power to buy other factors.
IR on short loans, bank credit, plays larger part than MP theory shows.

IR is return which will accrue to fixed piece of investment.

Other function of IR - being a price, not for factor cap., but power to purchase factors in general. 2 rates may be different. - because of greater risk in one kind of loan.

Since 1932, John Maynard Keynes, great imagination, new theory each week. "General theory of employment & interest", Rate of Interest, he said, is too high, from 2nd pt. of view. Expected profit rate, "natural interest". If

2. { profit rate higher than interest, entrepreneurs go ahead. In long run, worn out equipment comes up for replacement, etc, & higher the rate of interest the more labor will be employed.

IR has been lowered in this country since 1932.
Bond prices up, ir down.

28 La Grange St.

Increase in WR depressed profits.
Average hourly earnings include time & ½ for overtime, are not identical with WR.
Also "Factory employment" includes women & children, is affected by laws concerning them.
"Index of employment" includes only men.

McMaster

Keynes ignores ir as price of factor. Low ir, technology, low employment.

prices will end depression. 2) Increase in purchasing power would help. Success — '33-'35, 27% increase in wholesale prices, 60% factory payroll increase But factory output — '33-'35, 10% for 35%. '35-36, -20%. Gov. action ?; detrimental to recovery. Deficit financing — '33-35, little investment, people staying liquid. There is much play in an economy - '33-'35, 50% demand deposits, 27% wholesale prices, but 10% ind. output increase.

13) Tentative conclusions & up
1) Turning pts both down & up under many different circumstances (meaning prices sometimes started down 1st, sometimes 2nd.
2) Sometimes consumers, sometimes durable goods, move 1st.
3) Retail sales lag behind production, are much independent. '23-24, & '26-7, did not drop at all.
4) There is no shift from much use to little use of capital
5) Not true that costs encroach upon profit margins. (evidence all seems to say the opposite.)
6) '26 & '29, commitments reduced before peak in profits (which included land) reached.
7) Oversaving & shortage of capital theories no good.
8) Idea that it should be depressed no good
9) Tight money control theory slightly supported.
10) Wages should be lowered in depressions
11) Many factors influence length
12) Control.

Benham & Lutz, Chap. 7 (10)

The volume of production

1) Nature & significance of it.
Must be large vol. of it. Taxing rich & giving to poor no good, so few rich. $50. per month the present (1938-41) average in U.S. Some goods destroyed. Men worked below capacity.
2) Volume of it & nat. income.
1) Net value of everything + services
2) Final value of final consumers goods + net new investment + services
3) All Wages + Interest + Rent (!) + Profit (!) = production = nat. income

(8)(cont.)

Ind. production gained slowly during '26, seemed to be restrained. Falling commodity prices. Ind. production rose till Oct, '26, prices at peak in July, '25. Prices declined for 15 months before production started down, in '26, Oct. Raw material prices especially dropped, '25-'26, '27, moderate drop in industrial output, curtailed by maintenance of exports, 2) increase in agric. income, 3) building increase (decline of material costs in it) 4) small decline in profits. (11)

9) Upturn, '27.

June, '27, prices start to rise again; raw materials most rapidly. Unlike '21, prices started up before production did.

10) Downturn, '29

28-29, boom. 20% increase of production; no increase in prices. March, '29, (bldg. constr. started down end of '28), peak of cap. goods new orders. Why downturn? — Bldg. foldup did not cause, for profits rose for 3/4 of '29. Retail trade did not increase. Sept., '29, retail sales at peak. March, '29, cap. goods new orders decline. '29, factory pay rolls 7% higher than '28. (12) Feb, '29, Fed. Res. Board's warning vs. spec. credit. March, stock prices break, production cut. shortage of investment funds in bldg., not in anything else. No shortage of real capital. Overproduction? — not in '20, '23, '26, but of durables in '29. Dept. store sales increased little, '28 & 9, but may not be repeat of all. Cost of living same, '28-'29. Speculation in securities probably caused depression. (13)

11) The Great Depression

Why so severe & prolonged? Currency & banking troubles. — Arg, Aust, & Ger. Trade barriers blocked movement of raw materials. U.S. full of short-term debts, 2nd mortgages. Finished products prices fell less than raw materials. '31, wage cuts. June, '29 — max. Factory output, dropped 42% to '31. Stickiness of price of labor — why? — Unions — pres. Hoover's attempts to keep 'em up.

12) Recovery

Abortive summer '32. Roosevelt — 1) money policy 2) deficit financing 3) substitutes 4) N.R.A 5) F.C.A., HOLC, RFC. Theories 1) General rise in

sumers, caused recession. Was rec. caused by shortage of capital? No, decline in consumers goods came first. Rise in prices & accumulation of inventories, which made business men expect a fall in prices, & curtail commitments. Oversaving? - accumulation of inventories a form of it, but it was not size, but form of this saving that did it. Was credit too loose? - '19-'20, gov. reduced debt, member banks got rid of bonds, increased loans. No answer.

5) Depression of '20-'21, & recovery of '21.

Severe, brief. Why? Drop in prices was well-balanced. Retail purchases dropped little, production much - sale of inventories. But whence came purchasing power? From sale of gov. bonds, by people. Businesses needed to make replacements (contrast with '29 - people in debt for real estate, stocks, & installment plans). Reduction in Fed. debt shortened depression, gold influx from abroad, reduction of costs by businesses. (24% increase output per man) '21 revival not helped by foreign conditions - exports down. Increase in production came when inventory surplus had been consumed.

6) Downturn in '23.

Rapid recovery '22, increase of production. Everything rosy in '23, save that prices rose too fast. Some bottlenecks discovered. Business wary of commitments at high prices, got cautious. Fed. Res. tightened credit, to divert. Costs low in relation to prices - i.e., a land value upswing. Demand waited for prices to fall, stopped buying. (Coal scandals)

7) Revival of '24

11% reduction in prices of bldg. materials - land. Foreign influence. Dawes Plan. Large crops here, small ones in Europe.

8) '26-'27 downturn

Very mild. Ford may have done it, by stopping production. No retail effects.

Stable - April 23

Irregularities - often eliminated, in old way. Each reform induces a reform (can be no business cycle without ~~free~~ trade. production for anonymous consumers (both cycles - began with Ind. rev. forms - sunspot theory affecting crops, ~~Nat~~ income - limited to much actual consumers goods.

3 methods - adding value of all final commodities, + increase in capital ~~assets~~ must include services.

Review of Ec. Statistics: (Feb, 37) Slichter

The Period 1919-1936 in the U.S.: Its significance for business cycle theory.

1) The Program of Research.

'20, '23, '26, '29 – downturns

'21, '24, '27, '32-3 – upturns.

2) Advantages & disadvantages of chosen method

Ind. production, employment, pay rolls, prices, debits, wholesale trade, retail trade, new security issues, vary together.

to be starting point of analysis. Are cycles self-generating? (does contraction cause expansion, etc) Most theories assume they are, but may not be so. Foriegn influence often important. Mistake to take such a short period. (secular??) 1920 – secular rise in prices changes to decline, following change of U.S. from debtor to creditor. Hand-to-mouth buying (ind.) after 1920 (no banks?) But this study is 1919-36.

3) Importance of business spending.–

'29, enterprises begin to reduce commitments March or April, while consumer demand continued to rise, & profits rose. Why? Well, again, why in midst of depression, why do businesses start expanding before demand revives? What gives them faith in the future? Roosevelt recovery policy a failure till '35, when, demand deposits & profits having been increased, business started spending.

4) (How about a diary?)

The post-war boom, & 1920 downturn.

Boom produced by buyers wanting to rectify shortages. Lib. Bonds used as money, foriegn demand kept up by loans. Plight after war, a decline in production, prices expected to fall. Retail sales & foriegn demand cause pickup. No capital available until May – Victory loan. This made it difficult to increase production, & as did strikes. Credit easy, gov. policy.

"Downturn in 1920.... due to high prices of wholesale commodities or raw materials (land, ~~labor~~) Jan.–Feb, 1920, peak. Then exports declined, retail sales holdup till '21. Prices continued to rise after recession in industrial production had started, surprising, no one knows why. Also, capital issues rose after production declined. Decisions of business men, not con-

Staehle, April 18

Assignments – Benham – 7, pp. 113-125;
10,
20.

G. & H – 21

Best – Review of EC. Statistics, Slichter, Feb, '37,

G & H – 22

Special training program – statistics & accounting
Knowledge of source material
Rationing

To prepare particularly for Washington job.

2-5, next Fri, Kirkland H-14.

Business cycle

Fairly regular up & down swing in activity of business & employment.

Juglar, in 1860, first noticed it. Characteristic of upward trend of last 150 years, not previous period – hmmm.

Growth curves



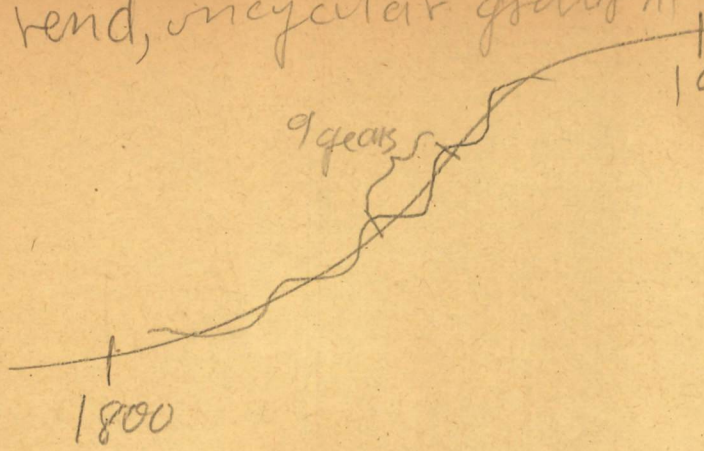
2 centuries

8-9 year swing.

No theory tells why they have this particular time relation.

Gold standard makes for parallelism in these things.

Trend, secular growth, unexplained.



I Doubt.

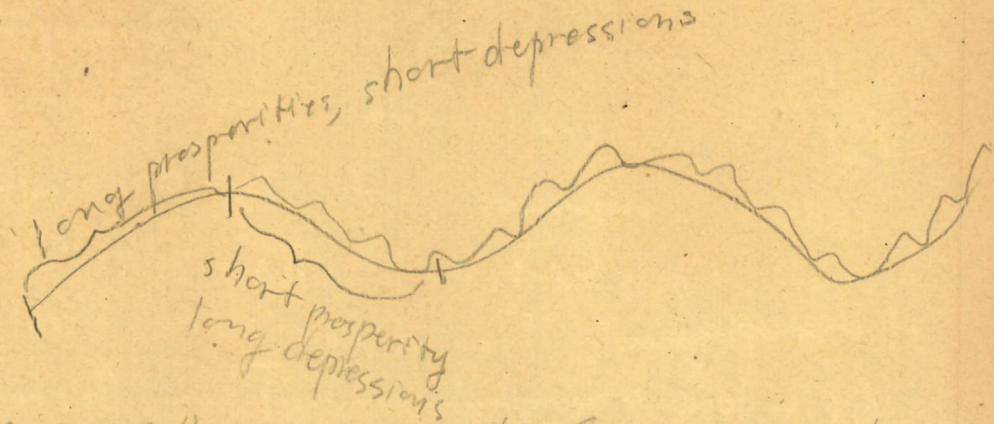
Since 1900, rate of increase has ~~slowed.~~ gone down.

1850-70, grand days of capitalist system, expansion.

3 types of cycles.

50 year cycle - not many to be observed. (Kondratieff)

war 1817 top
1895-6, bottom
war 1873, top
1847, bottom
war 1920, top



Not well established. Superimposed on growth line.

Don't know yet if they are connected with growth. a year cycles

1817 top ass. with 'spinning jenny, cotton gin, etc.
1849, gold discoveries easing credit — ????

Ya can speculate & support almost any proposition, there are so many facts.

Also 40 month cycle.

Princ. of accelerated demand.

Increased demand translates itself into producers goods industries.

This theory underlay the New Deal. Spend more than take in, so that money is wasted, pump will be primed. Has not worked. ('32-'33, ½ productive capacity of country used.) Gov. confused wage rates & incomes NRA increased them, '33 production, which had been going up, output fell promptly. But gov. spending created enough demand to overcome this partially. Also - gov. spending not big enough. Present war spending is same stuff.

Private investment very low.

Connection of these theories with rise of Hitlerism.

In Gy. from '32 on, till '34, development corresponded to normal cyclical pattern (revival from depression) At end of '34, all of a sudden, consumers goods stopped increasing, producers goods increased more. To start with, Nazi's tried pump priming, to get rid of unemployment. They did it with fantastic expenditures, nat. debt, he did reduce unemployment. Then Hitler discovered the power this gave, & Hitler conceived re-armament. He kept wage rates down. High taxation kept consumer demand down.

G&H (cont.) ch. 21

Theories to explain:

1. Rainfall, Jevons & Moore

2. Self-generating cycles) Mitchell. Accumulation of goods in prosperity, because of speculation. Then they stop accumulating, start releasing. Men thrown out of work, depression. Stocks used up, then recovery.

3. Money & Credit - Hawtrey. Contract currency, cause depression. Expand, cause prosperity. This normally happens in cycles.

4. Price fluctuations & cycle. - Irving Fisher

Rising price level stimulates trade, costs lag behind. Speculation in goods.

Lowering price level depresses trade. Extraneous forces affect price level.

5. Overproduction & underconsumption: (Hobson)

Too high savings, relative to amount of consumption, due to inequalities in distn of wealth. Rich save too much, making producers goods to produce what poor cannot buy. Solution - make poor richer, rich poorer. // But Flow of savings is quite stable, but investment is not.

6. Investment & the business cycle

Fluctuation in investment in cap. goods causes cycle.

Boom - burst of investment, because technical improvements increase profits. When these new things are being built, prosperity, but when they are complete, crash. (This assumes inventions come in waves)

The business cycle an unsolved problem.

Desirability of eliminating it.

Ch. 22 - The Control of the Flow of Monetary purchasing power.

Compensatory (monetary) control vs. industrial regimentation.

Budgetary policy as depression remedy.

Gov. deficits will rise. Some say spend much. But high prices mean loss of gold. Also, this will stifle private investment. Also, this may lead to another boom (!)

Banking policy & the cycle

Brakes - 1) Sale of gov. bonds on open market 2) Raising rediscount rate 3) Increase reserve requirements (done in '36-'37, from 12-1 to 6-1) 4) Sterilization of gold imports ('36, to keep them from becoming reserves) 5) Increase in margin requirements on collateral loans.

Centralization of Banking Control

'35 Banking Act, Fed. Deposit Insurance Corp.,

Learn 40 lines in Othello, 20 optional, 20 "Put that the light".

May 22 class theme, reproduce the lines.

May 23, everything due.

1st draft tomorrow.

U.S.A.

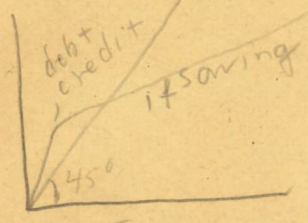
Stavehle - April 28

Ec. system in which consumers are free to save can maintain itself only if

Nat. income = value of consumables + net (new) investment.

Consumers always save

- if no saving



He under-emphasizes debt

So Keynesians say that it does not affect saving.

Retail value 60
Net investment 10
70

- wasted for that year.

He claims that nat. income is then 70, I say it is 60. He says if investment goes up to 15, nat. income increases to 75, I say it is still 60.

Gov. wasting the money on boondoggling is substitute way to get rid of extra money when system is not expanding.

There is no immediate connection between saving & investment.

Now look at exports & imports in this connection

Incomes which are created with that adding to consumers goods make up net investment. Net Exports create incomes (what a harmless way of ~~looking at it~~!) without creating consumers goods. Net Imports add to

consumers goods without increasing incomes, this is deflationary effect, discourages new investment.

19th cent., countries were increasing exports & industrializing

Exam. questions will regard reading more than this.

Staehle - April 14

Foriegn Trade, Balance of payments, etc.

Limitations on exchange rate fluctuations under free gold standard.

Am. importer, to pay Eng. exporter, will buy from a bank credit in £ in London. This will increase demand for £, ~~and this~~ £ are supplied by Am. exporters who have been paid in £, & sell them to banks for $.
This assumes that we pay in £ & are paid in £. But if $ is currency agreed on, these transactions would take place in London.

Price of £ in $ cannot vary much twee 2 countries — arbitrage profits would ensue.

If demand for $ in Eng. goes up, if they are just close to upper gold point. Gold flows from Eng. to U.S. Loans restricted in E., incomes will fall, prices will fall; in U.S., prices & incomes rise, so tendency is reversed.

-2 -2

Free exchange rates (Gold standard won't work if country receiving gold does not use it to expand credit — gold will then flow out (eek! . ???)
In USA, fiction of gold-standard being maintained, but all other countries, save Switzerland, have abolished it. If US ceased buying gold, price would drop to nearly nothing. Curious situation. Fictitious value. Buying gold encourages export, ∴ employment. It is a method of subsidizing employment.

G. & H.

Benham - 7, 10, 20. (21) later read

Thy loving children ~~send to Thee~~
Congratu la tions, D ~~r~~. G.

Thy loving children ~~send~~ congrat-
ulations to you, Dr. ~~Matt~~.

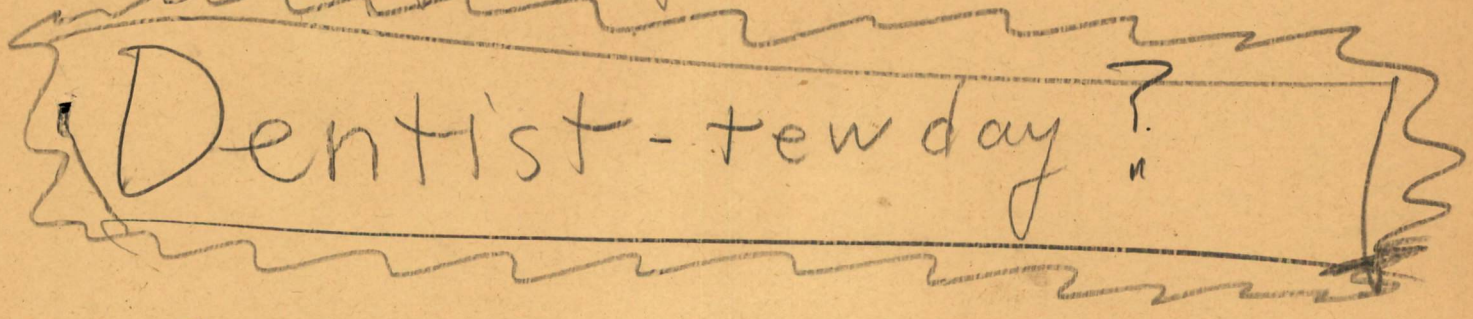
~~Pride~~
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later

Littauer 3/8 - Dr. Staehle, ~~April~~ 16
Kirkland 11-14 Gold position at this country. (fear of war one factor)
when? 1931, Brit. off gold. '36, France last country to abandon gold.
Fear of war makes Hollanders buy U.S. dollars, raise their price, even above gold point. As result, many countries abandoned gold-st.
Because we sterilized gold, & upset normal operation. We are not now on G.S. - we have managed currency, dating from gold sterilization.
—— "4 million unemployed are unemployable." "Everybody is unemployable after 5 years out of a job." Cold-blooded.
Teamsters union, $8.43 at Holland tunnel, racket. Presently upheld by supreme Court, on basis of Wagner Act.

Nietzche preceded Hitler. Like Raskolnikov, never horsebroken.

How to tell these supermen from others? Rask. nevertheless,

Nietzche says everybody should try.



Staehle - April 7.

Advisable to review Luthringer, & Credit expansion.

International trade -
Law of comparative ~~advantage~~ not absolute, advantage.

Wages in south lower than in north - immobility.

45.3% occupants of houses own them (but mortgages own many of these)

Gold Standard - 1) free coinage, 2) free int. trade, in gold.
3) convertability

G&H.

Chap. 28

Trade unions

→ Domestic system & "capitalist" organization preceded machinery – followed inclosure.

Union as information dispensary – & reservoir for strikes

Trade unions may affect MP

by a) changing efficiency of labor
b) reducing supply – ~~income~~ (not profits/K)
c) making other factors more efficient

Restrictive policies. Birth control

Make management work harder

50,000,000 gainful workers 30,000,000 urban wage earners

5,000,000 unionized.

85% org. labor in trans., building, mining, public services, clothing, theaters, printing.

Employers' ass.

Recent great advance in real wages & leisure time.

Fear of unemployment

"Structural" unemployment

strike, boycott, politics.

Legal status – freedom to organize questioned

picketing legal only if peaceful

union $ may be taken to pay for damages. Injunctions.

'32 Norris-La Guardia Act – freeing unions from law of conspiracy.

'35 Wagner Act, NLRB.

1920 – Kansas tried compulsory arbitration. Unconst., as in '25.

#28 Ch. 27 & 28

Labor movement opposes compulsory arbitration

State Minimum wage laws disapproved for many years, '37 supreme court changed mind.

Max. hours laws for kids & women, & guys in railroads.

Social Insurance

We're behind Europe

Till '35, only protected in accidents.

Social Sec. Act '35

Unemployment Insurance

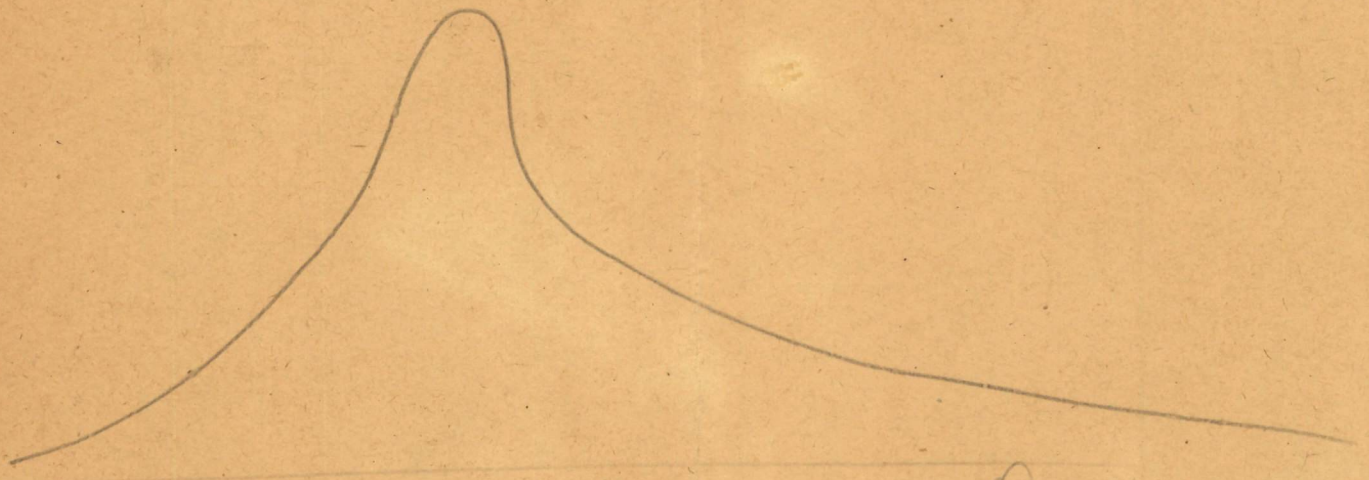
2.7% payroll tax. in 45 states. Fed. tax designed to even things up.

Simple pooled reserve plan etc.

8 hour day often produces more than 12. Min. wage laws & social insurance increase productivity - MP ↑, wages up, employment down.

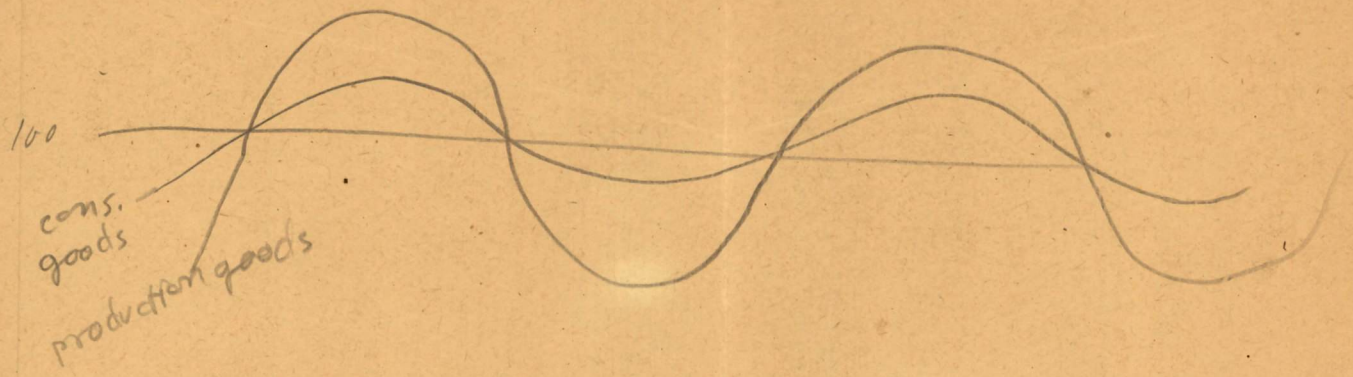
Peoples' degree of employment.—

If the least efficient are sent away.



Skewed curve.— less efficient will both get lower wages & not be hired as long.

Staehle - Feb. 24



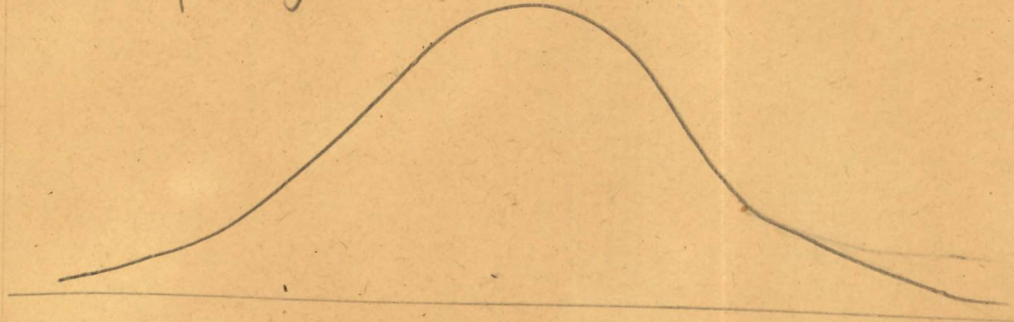
Principle of accelerated demand.

10 % increase in consumer's demand magnifies itself in demand for producer's goods.

Inequality of incomes

Within well-defined group.

Gauss } Bell shaped curve (Daisy petals)
Laplace }



similar curve in time studies in labor performance.

Tailor society — system of getting most out of workers by right conditions, etc.

Average also the most frequent.

In free competition wage rates will also follow this curve.

Reading ass's satisfactory — nothing to add.

Quiz Thurs. instead of Tues.

Chap. on profits rounded out.

Policy now is to push down interest rates, push up wages. Result — technological progress. Disequilibrium, unemployment. MP of Labor must be & is pushed up. Doubtful if share of income going to labor is increased.

Role of profits —

Importance of entrepreneur. Employer employs, does more than exploit (wages fund conversion, Storehile) system rests on employer.

Crap↑

Unrestricted profits made change from horse & buggy to automobiles.

Barrone — Fr. economist — said take & give $ directly instead of interfering w/ the system.

Tax incomes, not profits. (mentioned landowners)

(Income from gov. bonds not taxable)

Nat. Labor Relations Act, 1935. (Wagner)

When Labor = 20, MP = 0

" " = 7, MP = AP

When MP Labor = AP Labor

MP Land = 0 (I say = AP Land

---

4. Unused factors.

5 Economies of Large-scale-production

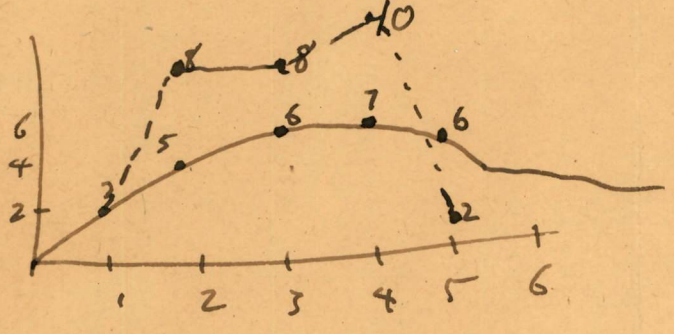
Indivisible factors used.

6. Constant & increasing returns.

increasing - 2 men can move a couch more than twice as well as one.

constant - 10% increase in radios increases % returns on programs.

Equilibrium - marginal products of factors in every industry of = value.

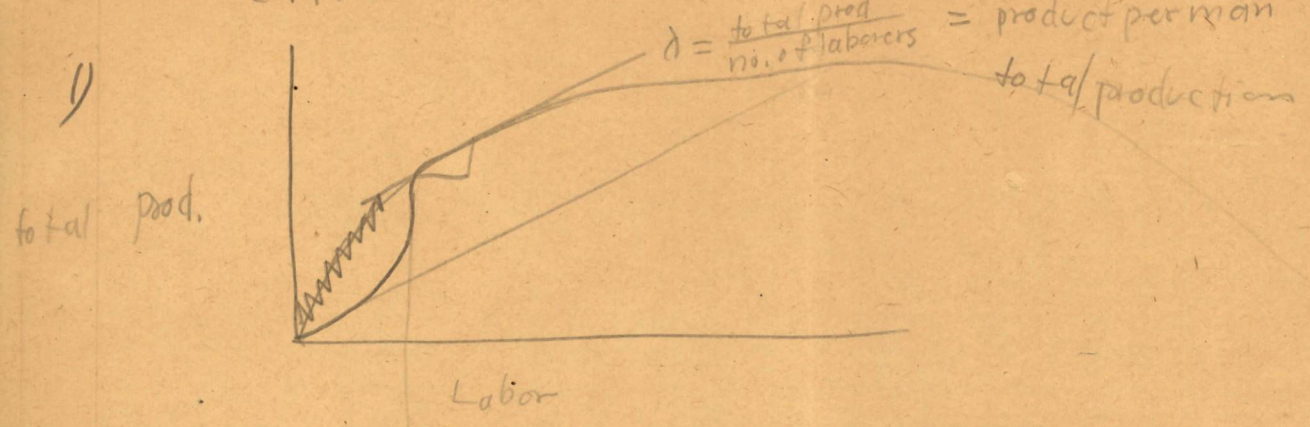


Benham & Lutz - Ch. 9 - Combinations of Factors

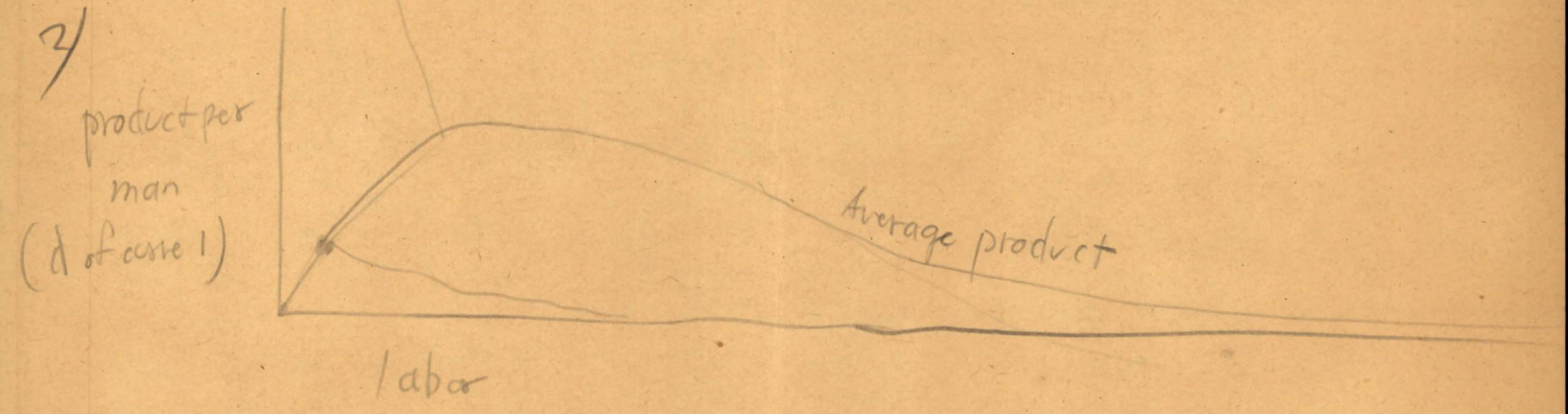
If MP of land = 0, AP labor = max.

(MP land is MP labor backwards)

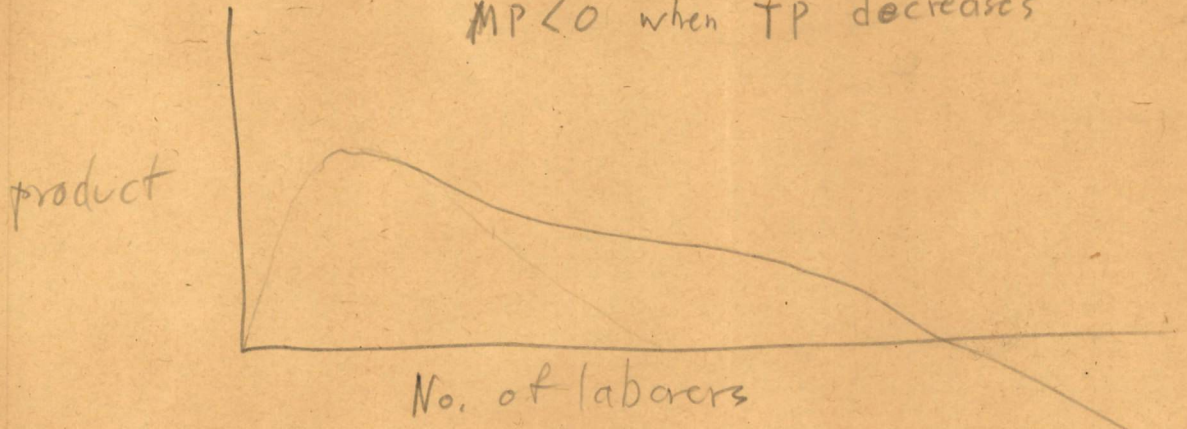
1)



2)



3) Marginal product – if MP > AP, AP increases.
– if MP < AP, AP decreases
MP < 0 when TP decreases



(Remember ~~AAA~~ TR, AR, & MR; TC, AC, & MC;)

These assume constant land & cap. If we take labor constant at AP = MP, & vary land — increasing land is same as decreasing labor.

7. Supply of labor.

Wages tend toward level at which all workers can find employment — not lower, because of comp. among entrepreneurs.

(Then why unemployment)

More workers, lower wage rate (inconsistent with wages = MP) no, case larger pop, lower MP. (not nec. so)

Scale of preferences. Higher wage rate may mean worker will choose longer or shorter hours.

8. Women

9. Minimum wage laws lessen employment. Elasticity of demand for that thing determines effect on wages.

May be helpful

a) squeeze profits

b) Rise in wages may increase efficiency.

c) take excess profits

d) Unemployment relief

General rise in wages means rise in interest.

Australian experience

10. Unions

11. Unemployment. unemployables. casual labor. seasonal fluctuations. High wage rates mean least efficient must be dismissed.

Mechanization induced by high wages. Mech. due to lower interest rate doesn't unemploy (ceteris non paribus) Lots to think about but nothing thought out.

Chap. 15 - Mobility of factors.

"Specific" factors - available for only one use.

The better conditions in general are, the greater will mobility be.

Mobility of land - not physically, but of land-value. Also of capital applied to land.

Capital -

Chap. 16 - Wages

2. Differences in earnings within an occupation. Assume uniform time-rate for all labor (Marx)
3. Independent workers - take own risks.
   1928-32, agr. prices halved. All small, independents took it - but in coal, wages stable & unemployment up.
4. Wage = MP
   If wages ↑ & rent ↓, less labor & more land will be used, tho its cost must rise too?
   until once again MP = price of factor. Also more capital will be
   ~~P. 257~~ Definitely says that ~~MP~~ Wages follow MP, but only proves that MP follows wages. If MP goes up, more demand for labor, wages temp. go up.
5. Demand for labor; monopoly. If MP of monop. rises, he will add as many laborers as comp., cause more prod. mean lower price.

   Monopsony.
6. Demand for labor - net productivity.

   Discounted marginal productivity.

- Benham & Lutz · Ch. XVII Interest

1. Meaning

Cap. formula - value = $\frac{\text{annual yield} \times 100}{\text{Interest rate}}$

1. Risk (affect rate.
2. Time before payment)

In banks, in fact, long term loans are more easily collected on than short term.

Fed. gov., firms of high standing get bank loans.

1933, gold inflow, low i.r.

a 'liquid' - exchangable for $

Money loans on security are only a sacrifice of liquidity.
In panics, all want liquidity, short rates ↑
Inflation means conversion of $ to goods.
When people expect profits to increase, they buy stock.
Bond prices fall. i.r. ↑
short term rates ↑ in boom.

Bottom Depression — stocks ↓, bonds ↑, i.r. ↓, short rates ↓

Tendency for l-ng & short rates to move together.

'35 to now - short rates ↓

So short term rates also determined by substitute opportunity.

3. Demand for long-term loans - firms to make capital. (slightly mixed with consumption goods)
for consumption

4. For industry & trade.
a - long term fixed interest
b - stocks as own firm, fluctuate.

Ass. — Staehle, Mar. 21.

Benham & Lutz, Ch. 25–30

Gaver & Hansen — Ch. 37

Quiz on 'em Tues. after vacation.

Analogy between member–Fed. bank relations, and different country relations. Expanding country loses gold, Bankers acceptances — short-term commercial paper — promissory notes. If bank accepts to pay note when it comes due, it is a bankers acceptance.

Member banks may rediscount, get money.

Bring charts Tues.

use value very small.

Starchke - March 2.

Money - vehicle of division of labor & exchange.

Separation of $ from commodities used in exchange.

Metals came to be used, in separated places.

— Missing link. ? ?

Acquires value apart from use value. Just because of demand for it. Fact that it is used as $ increases scarcity makes more valuable. Increases price of gold watches.

Distinguished European families of today are descendants of Robber Barons. Gold easy to steal.

Medici — safe vaults for coin, get paper for it. certificate

This representative full-bodied $ came about. - based on trust, confidence faith belief

Security against bandits.

German debt after inflation worth less than 1¢.

There is a market for credit notes.

Distinction twixt promissory notes (not exchangeable) & commercial paper.

Called loan rate

\ take stock to bank, get $ with it as collateral.

Banks glad to get $ out to earn interest.

I.R. in called loan market indicates amount of $ available for loans.

Staehle - Feb. 28.

Money - Buy 1) Luthringer, Chandler, & Cline
Money; Credit & Finance (1937).

2) Federal Reserve charts on Bank Credit, Money Rates, & Business.
Bring & keep these charts up to date.

Ass. - read chs 1-3 in Luthringer. By Tues.

Intro. to money.
We have been taking for granted that money expands with need for it.

Functions
1. Medium of payments.
2. Unit in which to measure values.
3. Standard of deferred payments. (similar to exchange)
4. Measure of a store of value.

Anything accepted as a means of payment is money.
Acceptability makes money valuable.

Austria '21, Germany '23, refusal to accept marks, 4.2 ~~billion~~ million of million marks = $1. German state paid all its debts at that time.
Traditionally indebted classes, like farmers, always want rising prices & inflation.

The very fact that some commodity is designated as money increases its value.
20 billion $ gold in Ft. Knox. Purely theoretical worth -

Staehle. March 19

Reserve must be a % of all demand deposits, including those which are not -credit creation.

Know reserve ratios.

Demand deposits - 26% in reserve cities (district F.R. banks)
20% in plain cities (side branch)
13% in small towns (no branch)
14 ?

Reserves cannot be used in an emergency.

Fed. deposit insurance. - All banks compelled to join insurance company, so depositers won't get raped.

Vault cash.

Reserves are only a device for the Fed. Reserve to control amount of credit creation.

Advantage is simply prestige — product differentiation. — altho no real aid is given the bank. Sounds. Phony.

F.R. Banks also organize clearing houses, exclude non-members.

Rediscounting. Rate kept high, to discourage. Fed. Res. system issues banknotes.

When - transfer of reserves is used as payment, bank must reduce demand deposits.

Quiz over all reading - Ch. 9 Luh, Mimi paper

p. 8
p. 11
p. 2
p. 12
p. 13
p. 14
p. 18
p. 32
p. 35, 36, 37
p. 39
p. 55 - get earlier chapters
p. 57
59 — "
41
49
51
53
54

Keep these up to date.

Open-market operations & reserve ratios, Fed. Res. weapons. Legal limit on res. ratios, has been reached,

Another power - the Treasury - has grown in importance as gov.'s interference has.

1800-50, Manchester School, Cobden [illegible], free trade, ideal of cheap state. Smith & Ricardo its parents, pursuit of self-interest best for all. Bit development of monopoly causes government to regulate things. Change from passive to active government.

During last 50 years, fact of large-scale unemployment has become evident. Necessary to feed them, for

humanitarian & "trust to masses" reasons. Socialist ideas spread among unemployed.

This country last stronghold of individualism. Social insurance in Gy. in 1890, 1912 in Eng., recently here. Recognition of gov. responsibility to unemployment started (not so - just a part of) demand for paternalism. By A. Smith, this subsidizes maladjustment. Cheap gov. no longer possible.

Fed. Res. governors not new deal. Treasury is.

Treas. can counteract Fed. Res. system actions, by shifting deposits from member to Fed res. deposits, demand (from taxpayers checks) contracting credit, vice versa, expanding. Now that gov. is handling such terrific sums, Fed. Res. board is powerless.

'43, gov. will spend .62 b., nat. income will be 120 b.

Total world gold stock, at $35. an ounce, is $25 b.

He believes in nat. debt, ~~or~~ limited only by pt. where interest on it = nat. income.

---

equation of exchange:

$$MV = PT \quad (v)$$

e.g. 1 × 15¢ = 1 dime + 1 nickel · 1

2 · 15 = 1 dime 1 nickel × 2 or 2 dimes 2 nickels × 1

Quiz will be Thurs., not Tues.

Staehle - March 7

Dual role of rate of interest.

Am. manufacturing - $5,000. per man, machinery
(not agr. - probly only big concerns)

Long term rate - 6%
Short term rate - 3%
} assume, ½ → 3%
→ 1½%

Lowered i'r stimulates business by lowering certain ~~costs~~ costs, ~~etc~~ but ir it's price of factor, capital, & lowering it ~~lowers wages~~ causes unemployment. Allowing wr. to increase simul, aggravates, lowers rate of profit.

Creation of Credit by Commercial Banks.

Look at numerical example.

1879 - Gg. went industrialist, protectionist.

Sources for chart books —

to p. 33

Fed. Res. Bulletin, in Lib. downstairs.

Survey of Current Business (Dept of Comm

Get to know it.

Credit expansion

Next summer - start real teacher's index in all books read.

Shift from ~~xxxx~~ demand to time deposits - (if there is a lower reserve requirement) means $ thrown into system.

Stavehle - March 17

Up to Ch. 9 in Lethbridge. Quiz Sat. - ¼ hour, mostly on definitions.

Holding Co. owns concentratedly, trying to get control, but investment trust owns variedly, ~~xx~~ security the object.

Exchange of debts of different maturity.

Commercial paper, promissory notes, payable on definite day, not "on or before".

Bank receives debt. - not circulable as money. Borrower receives immediate credit, pays interest. No change in balance sheet.

If everyone had account at same bank, no limit to ~~credit~~ creation of demand deposits.

When 2 banks have debt, one to other, one writes check to other on Fed. Res. deposit.

Fed. res. deposits are not physical - a claim against Fed. Res. - no interest.

6% reserve must be held against time deposits.

Banks must have state or nat. charter. Nat. banks must ~~join system~~, state b. may.

Fed. res. deposits are demand deposits.

% varies with size of city & type of deposit. 20% average. Banks in central Fed. Res. cities, 26% requirement. 20% where

there is another. 130% where nothing.

Because in small city, people will have their accounts with the same bank. (tho fewer people have accounts there)

Res. requirements misnomer — they cannot be withdrawn at pleasure.

Banks everywhere want to prevent failures.

Buy new ribbon.

1½" on left, 1" on right.

Dos Passos — no melodrama - prosaic

Dost. - detailed study of eccentric, breaker of social contract

DosPassos — just folks, less detailed study of each. PP maybe
can use more eccentricity

Staehle, March 24.

p. 9 . 1936, July Reg, Jump. Feb.-June, '36 Apr.-May '38, downward. 41-42, jump upward in reserve requirements. '17-'36, requirements ½ of present. Change in res. requirements spread over year or 2. Apr., '38, major depression under way. - stoppage of doles responsible - reduction of business activity. '37-'38, ind. act. from 120 to 80 ('34-'35 100) In '37, gov. spent no more than it took in. So Fed Res system decided to ease credit, reduce requirements.

Now keep up to date

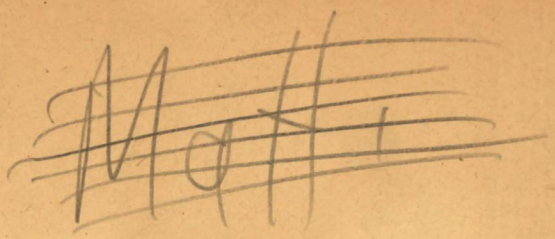
p. 8, -
p. 40-41 - ind. production. How much peacetime cons. goods? see p. 59.
p. 18 -
p. 11 - money (physical) in circulation
p. 35-36-37-39

These charts ended just before "defense" program.

{Fed. Res. bulletin.
{Survey of current business - wonderful source. - monthly.
Annual statistical supplement - data back to 1919.

'36 increase in reserve ratio, bonds were sold back to gov.

p. 54 - money income payments, hump in '36, veterans' bonus. (1 billion)
p. 55 - cash farm income
p. 59 - seasonal swing eliminated from dept. store sales, '36 hump.
p. 57 - Freight car loadings, important index. Seasonal, too. Coal strike declining '41.
p. 51 - employment, hours worked. 40 hour week quibble is wage question. - "is labor to be exempted". - what an attitude.



Theory of international trade; comparative costs.
Labor & capital do not move as easily between countries as in a country. - only reason for separate theories of int trade.
Eng. after the war, immobility depressed areas in coal & textiles. Why did not industry move into these areas? Food prices have been relatively low in inter-war period. Makers of durable goods used little fuel, and were the biggest manufacturers in this period, ∴ coal slump.

effort		tons of steel	bushels of grapefruit
X	E	100	or 50
X	W	50	or 100
2X	E	100 or 200	and 50 or 100
2X	W	50 or 100	and 100 or 200

Max.

They are better off if they trade.

Even if one country is more efficient in production of both, it will gain by trading.
Unless there is no comparative advantage.
? ? ?

Denham & Lutz say tariffs only raise land-values.

Chap. 25.

International trade: separate theory only necessary because of difficulty of getting over national boundaries.

Location;
Natural resources, costs of marketing, advantages in integration, gain from using indivisible specialized equipment; concentration of industry in an area.

Gain from int. trade.:
Principle of Comparative costs:
Country will gain by specializing in those industries in which its comparative cost advantage is greater. "opportunity costs"

Terms of Trade;

A		B	
L	I	L	I
1	1	2	1

L exchanges for T somewhere between 2 T for 1L & 1 T for 1L.

1929 depression, raw material prices down, Britain ∴ well off.

Int. trade & prices;
Free trade, even without free movement of labor, lets heavily pop. areas act as business centers, etc., and increases the supply of land, raising wages, (but by implication, lowering them in countries traded with — but) (he says increased production will then increase wages - vgh-h-h)
Assumes that MP determines wages, after having proved only that wages determine MP.

Movement of factors between countries:
(Mobility of labor hindered by poverty)

Chap. 26

Balances of Payments. - excess of imports over exports or vice versa, the payments representing them.

2) Estimates for U.S.

Gold sold to foreigners is "earmarked" as theirs, but kept here.

3) Defects of estimate

4) How Balance balances.

Increase of indebtedness in U.S., and Canadian bank balances in New York.

5) Correcting adverse balance of payments.

A country cannot go on exporting ~~cash~~ credit, for its balances will soon fall to 0! Banks, to stop this,

1) "let exchange rate depreciate", (i.e., increase value of foreign notes), stimulate export.

2) If central bank wants to maintain fixed price for gold, must sell at that price. Then deflation, to stimulate export.

? ? ? ? ?

p. 467

Chap. 27 - Free exchange rates

1) What determines exchange value of £ in convertible paper currencies? Demand for £ (in exchange for $) & supply of dollars determines.

2) Purchasing Power Parity theory.

~~Arbitrage~~ profits hard to get.

Relative actual purchasing power in country determines exchange rate.

Difference between external & internal purchasing power of $. ??

If P.P.P. is higher in ~~than~~ country than exchange value, exports stimulated. He does not dare say if it's true or not.

~~Chap. 27 (cont.)~~ Chap. 27 (cont.)

3. Influences affecting exchange rates.
supply & demand determines
a) Monetary policy
b) Capital movements, including speculation
c) Demand of each country for other's goods.
} determine supply & demand

d) Inflation

b) If one country A suddenly buys a lot from another, B giving it money, ~~the~~ B will have inflation. Refugee capital then moves. Chile example

c) If Am. demand for Eng. goods falls, $ rises over £ in exchange rate. Here is fault in PPP theory (but if PPP is ts assume complete mobility of labor, it's no fault)

(but flow of $ to U.S. will correct this)

4) Exchange Equalization or Stabilization Funds
country may have one to keep bad things from happening, thru speculation. Active Eng, inactive Am. ones.

Chap. 28 - The Gold Standard

Allie → It practically provides an international money, despite local differences

If purchasing power of currency unit is kept = to pp of certain weight of gold, country is on gold standard. 3 ways to do this

a) Full Gold Standard.
Gold in coins to face value, free & unlimited coinage, export free. We had this here til 1933. $20.67 perance.

b) Gold Bullion Standard
Eng. '25-31, on this. Convertibility both ways, but no coins U.S. since '34. $35. ance.

c) Gold exchange standard
Satellites of U.S. country. Such countries in the "sterling bloc". Keep currency stable with planet country by deposit in planet country which can be raised & lowered. It keeps these in

interest bearing bonds. Foriegn countries lose on these when going G. S. left standard.

2. Rules of G. S.

Fixed rates of exchange. G. S. country cannot loss with currency independently

If we import so much we lose credit abroad, ℓ goes down. on foreign exchange

If we are on gold standard, we ship gold, ~~ℓ~~ and prices here go down, export would be encouraged. (But this ain't good)

Actually, authorities will lessen amount of money by selling securities on open market and raising bank rate. Satellites must take burden of this. / Movement of gold inside country is ok, no trouble. (better have one standard for whole world)

3. G. S. in practice

Central bank may not follow rules. 22 billion gold here, 8.2 billion in '24 - foreigners purchasing securities. We ain't following rules - did not allow gold to increase amount of money here. - it's sterile. Or, 25-31 Eng, can refuse to deflate when losing gold. by borrowing from abroad, or by ban on lending abroad, or by tariff.

4. Causes of gold flows (same as influences of exchange rates)

a) Monetary policy.
A inflates. - loses gold, reverses int. policy.

b) Capital movements
A lends abroad. - gold follows, deflation, ~~A~~ exports,

c) Recip. supply & demand.
a) Population change
A's increases. Deflation, ↓exports. Terms of trade, due to larger popy, worsen.

b) Capital changes.
A saves, gets more capital. More production, exports, gets more gold. Bigger actual income.

c) Changes in technique
similar

Chap. 30 Import duties & quotas

1. Arguments for protection
2. Protection as emergency measure
   To promote employment in depression.
3. Effects of import duties.
4. Import quota
5. Recent world trade
   Protectionism, unemployment, generalness.

Ch, 28, (cont)

d) Changes in demand.

Demand for B falls. B loses gold, till imports are down to what she can pay for.

5. Monetary policy of system

Country that loses gold should be losing it.

~~Persaud, Lad. (193~~

Import of goods (export of gold) causes deflation. Deflation causes export. Gold enters again, & inflation causes import.

Country's net income = production ± foriegn interest.

Above relative. Non absolute.

Increase in all gold. / General in- & deflation, controlled.

1924-29 wages rose, but not as much as worker's output

6. Merits & defects of G. S.

M) Practically fixed rates of exchange, facilitates exch.

D) Gold movements change interest rates

Misunderstandings – it don't prevent inflation. (by all countrys together)

D) Deflation sometimes necessary.

7. Devaluation

(to correct bad balance of payments)

To keep stable exchange rates w/ that deflation. U.S left gold '33, returned in '34 with 60% backing. Exports stimulated.

Chap. 29 - Exchange control

1. Motives - instrument of central planning. To prevent flight of capital.
2. Methods.
3. Blocked accounts - foriegner's in Cty can be used only for buying German. So people stopped crediting Germans, & they had to –
4) Clearing agreements - not always satisfactory
5) Payments Agreements - improvement on above. Corrupt officials. Course of trade badly altered.

Staehle - May 2

Post war Hungarian silk began to compete with Lyons, new machinery vs. old. Newcomer advantage. Protectionism the result. War sent production to Holland of coal, & to Poland.

"In pure theory, system might run down to 0 output, 0 consumption" Indicating falsity of theory.

If at any time savings > net investment, "downward movement sets in". (!?!?!) As incomes go down ~~decrease~~ savings go down, & when they = investment, movement stops. But if incomes decrease, will there be new investment? Keynes said, since it is not investment in real capital that must offset savings, gov. can create incomes by overspending. But this raises incomes, ∴ savings, thing happens again.

Because ($\frac{60}{10}$ / 70) they will spend 60 leftover on consumption goods

But if new investment = 5, there will be only 65 new incomes, & ∴ drop in demand for consumption goods, ~~false~~

Consumption function.

Nat. debt will never be paid back. Debt represents threat only as it is held by individuals, & interest payments may be abolished. Eng. 1918-38, ½ taxes here to pay interest on debt. Gov. should use gold certificates to finance war.

More assignments

Staehle - April 11

Gold goes from W. to E. Money in W. down, they spend less for everything including imports. Prices of steel & grapefruit down. (Shift steps when price of E & W steel = ?? Assume no comparative advantage.) (If rel. prices unaffected by change in rate of output) (But change of output must change rel. outputs, give comp. advantage) Now say grapefruit is run into increasing costs before steel. - they will be first to run into increasing ~~costs.~~ be equal tween east & west. Final outcome - west concentrates on grapefruit, E on steel.

If, under free gold standard, Britain starts to import more than before, Brit importers have to buy fgn. $, their price goes up. Can this movement of exchange rates continue? Limit is transportation cost of gold. (If importers, instead of buying $, [if Brit importer owes $1000., he buys, for £250, $1000. But if price goes up [suppose it costs £1 to send £250 in gold], importers will buy gold for £250 & send it. [unless cost of shipment exceeds advantage]) (Earmarking)

Gold standard guarantees stable exchange rates, but demands price shifts. Free exchange rates keeps prices constant; lets rate fluctuate.

Slichter—

Greater catastrophe will be to employer, longer he holds out.
Crafts all assume they are so small they make little difference, easily too much.

1900–20, rise in real wage, not physical productivity.
1920–40, " " " " & in " " .
(& unemployment)

How great difference twixt union & non-union labor can there be? Depends on how nice monopoly position guy has. But often unions push wages up till most stuff is produced in non-union plants. (W. Va & Ky vs. Ill, Ind, O., & Pa.)

Should wage rates rise & fall with demand for labor, or with prices? Sliding scale contracts.

Working rule – wage demand conflict.

Unemployment inevitable with collective bargaining.
$\frac{1}{8}$ nat. income to agr. – $\frac{1}{5}$ gainfully employed
(probly landowners called gainfully employed in city)

Staehle - Feb. 19

Quiz Tues.

Marginal productivity theory - Chap. 11 in Meyers.

Links consumers demands to demand for factors of production.

Link is marg. productivity. Demand is m.p.

In equilibrium, m.p. curve is demand curve for that factor.

2 - Rise in wages (rate) means rise in costs,

at least increase in technology. & resulting lowering in employment.

If wages are high, by adopting new intensive capital intensive techniques, productivity of labor is increased. Printers, eg, raised their wages, & so entrepreneurs used so much capital that printers were very productive.

If relative wage rates are kept high, its = to cutting out part of labor supply.

so "a technological" unemployment is really due to high wages (crap?)

Decreasing interest rates since 1929.

1% amo — 1½%, very low

skilled labor is scarce because of restrictive policy of unions.

Slichter good.

Sweden, newspaper printers get highest wages, because of urgency of demand.

Inelasticity of demand in any industry lets unions raise wages.

Flour mills in Sweden high wages, so they're mechanized.

Ec. Feb. 17

Rise in wage rates means less use of labor.

Technological advances cause trade unions.

Unions are for labor of particular kind

Craft unions

Craft unions

Craft Unions

Craft Unions

Craft Unions

Unions in building trades stop introduction of labor-saving devices

$40.
275 | 11,000.
1100

Ec. Feb. 14

pay Chapman 15¢

Labor.

"Raise in wages" may have many meanings.

Wage rate.

Share of national income going to wage earners.

1914 dollar worth twice as much as present.

Most cost of living indices of doubtful precision.

Sliding scale for wage rates.

?. Raising wages raises prices.

When relative prices get displaced, less reliable is index

Some taxes not included in official index, so AF of L proposal is not refusing to share the burden.

J. R. Hicks, theory of Wages, math. appendix.

Wages

Wage rate – pay per man hour.
Time & a half for overtime

Weekly earnings

Pay roll. (does not include salaries).

Workers annual income

Raising wage-rates lessens time employed. New Deal no good.

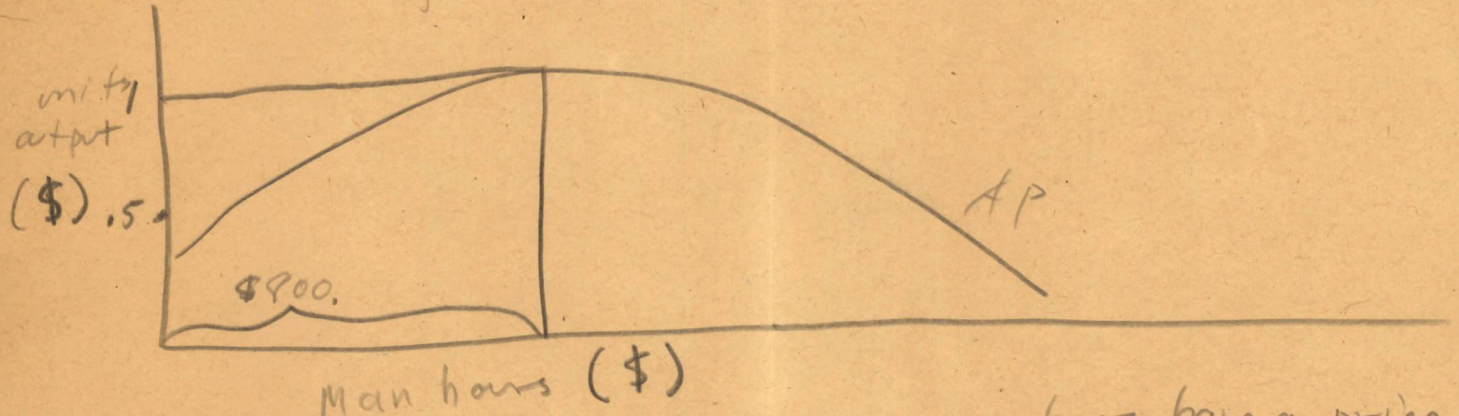
EC. - Feb. 17

W
- Benham - Ch. 16
- G. & H - Ch. 28
- Slichter - Ec. of collective Bargaining.

I
- Benham - 17

R
- Benham - 18
- G & H - 27.

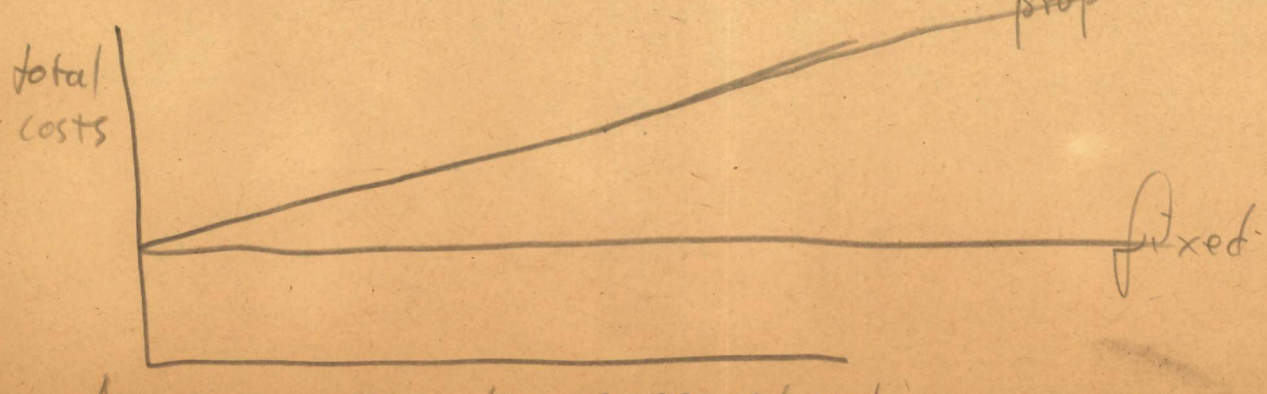
Wages



Translate into money units — man hours have a price

Units of production also have price.

Pass from this to representation in terms of costs.



Benham & Lutz - Ch. IX

Meyers - Ch. XI

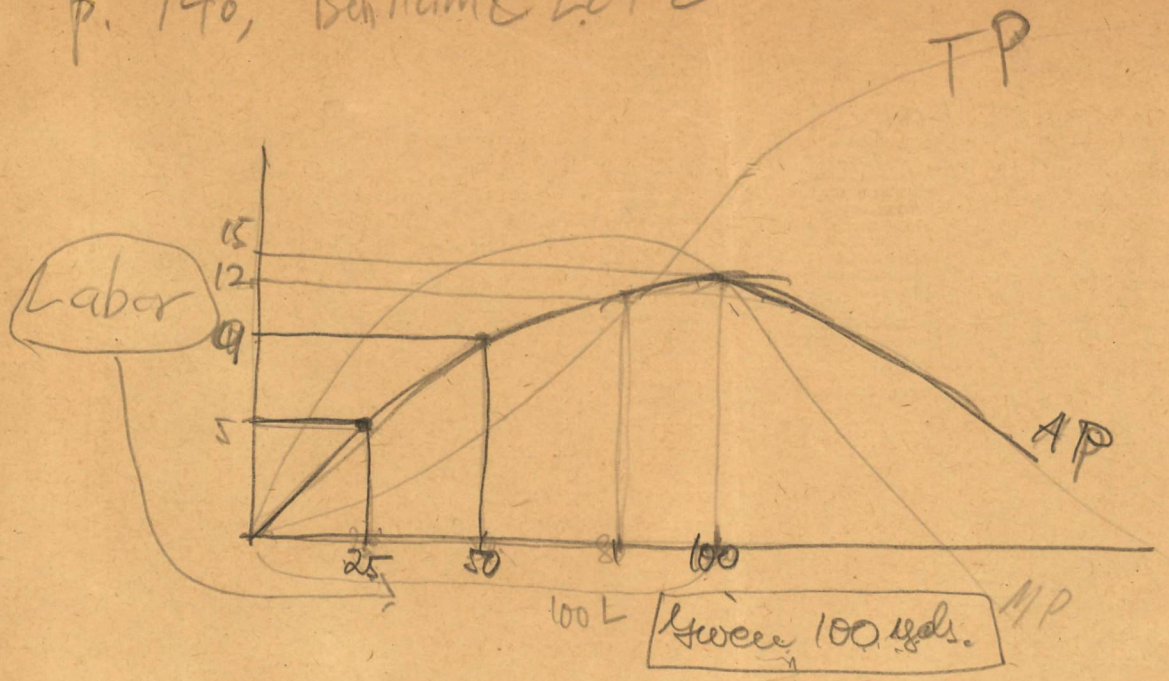
B. & L. - Ch. XV

Exam.

1. $\frac{23}{25}$ 2. $\frac{15}{25}$ 3. $\frac{9}{16\frac{2}{3}}$ 4. $\frac{15}{16\frac{2}{3}}$ 5. $\frac{13}{16\frac{2}{3}}$

It may be the better entrepreneurs who leave first.

p. 146, Barham & Letz

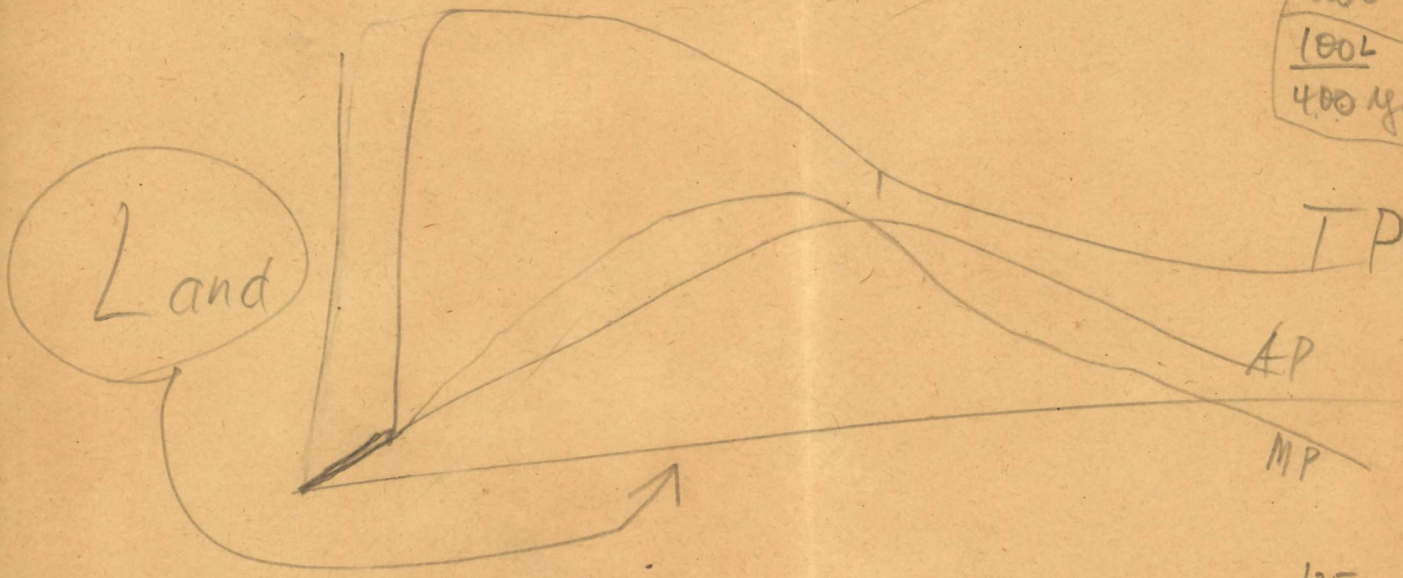


80 L / 100 ydsᵃ

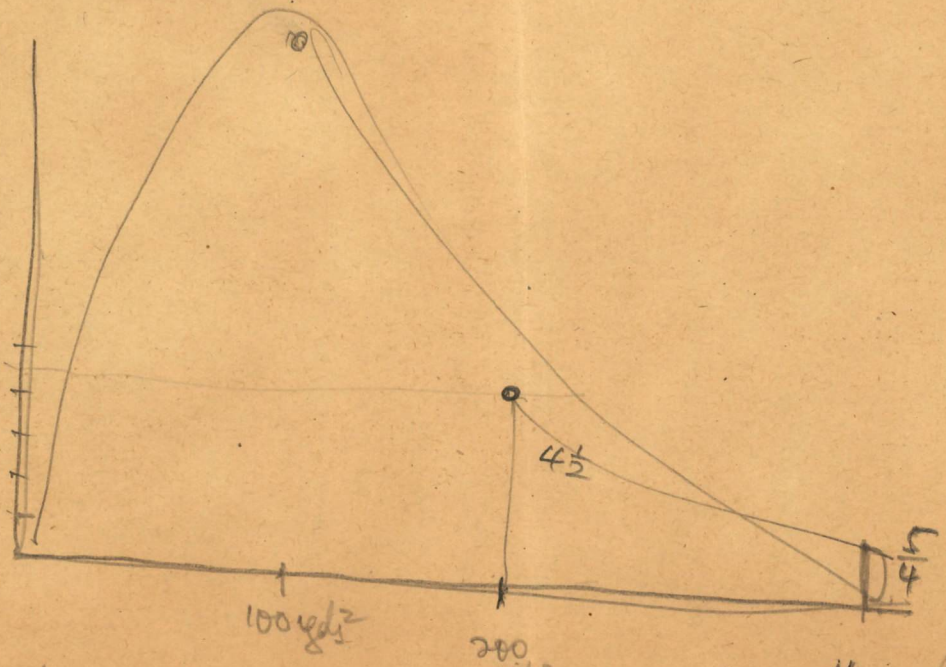
100 L / 125 ydsᵃ

100 L / 200 ydsᵃ

100 L / 400 ydsᵃ



125 200



Given 100 L

Mr. Mason Gaffney,
Grays 17-28 Harvard College,
Cambridge, Mass.

Law of D.R. holds for all industries & all factors. It is but an obvious observation of what happens when factors are incorrectly combined.

AP of labor at max. when = MP

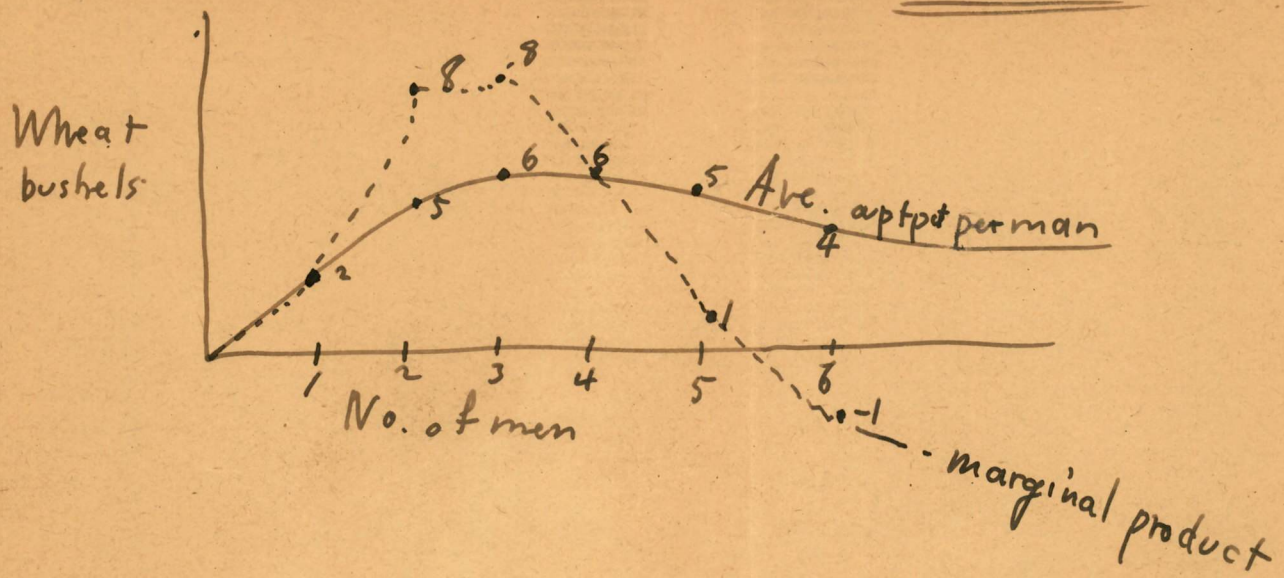
MP of land in all industries must =.

? If MP of land = 0 (AP of labor at max), land must be valueless. ?

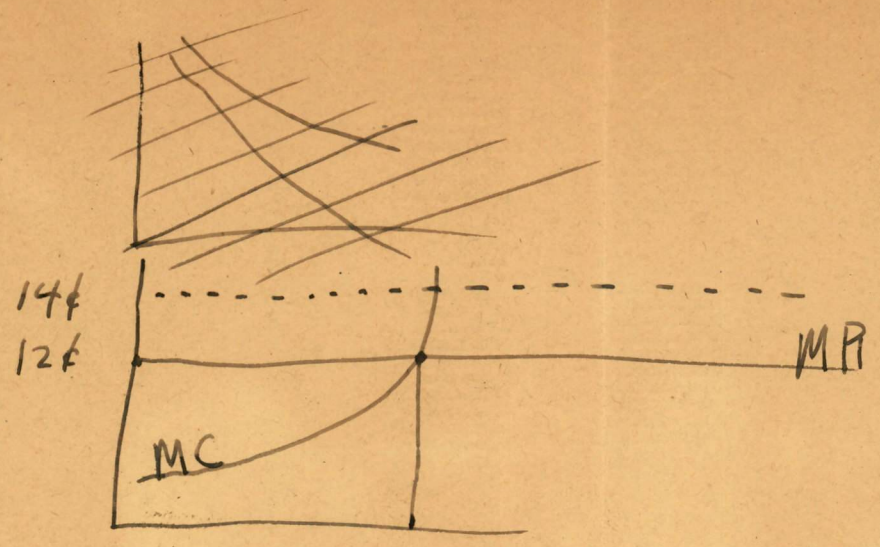
MP of labor in all industries must =

p. 147

Keep up with reading. – Tues.



Law of diminishing returns is not just for the application of labor & capital to land, but also for the application of labor to cap. & land, or cap. to lab. & land, or Land to Lab. & cap.



Out of pocket — current cash outlay

Staehle - Feb 10

Land ~~increasing~~ of minor importance in these considerations.

Marginal products must = prices

(" " = each other?)

Marginal value products = price

But when equipment is frozen, possibilities are limited.

Mobility of factors would increase production.

Mobility in this country great. In Europe people aren't so gay about parting from their jobs. They are all in ruts. That's the advantage of young countries. Look at Japan. No frozen capital structure.

The higher wage-rates, compared with interest, the less capital used, the more mobile

Ass. - Look up stuff about wages, read them.

C) control by Fed. Treasury.
Change goldprice. Purchase silver ('34 Act). Change Treas. cash at banks. Stabilization Fund – when it buys, expansion. can shift its general fund from member to res. banks. Shift social sec. reserves.

Treas. & Fed. Res. often conflict.

VII Meaningof valu of money.

Index no.s.

a) Secular b) cyclical c) irregular

a) up or down over period of years.
b) business cycle. Boom high prices, depression low prices.
c) From wars, disasters,. Civil & World War, prices up.

Wages move slower, up & down, than prices.
Price changes as cause of depression.

VIII Equationof exchange & quantity of money.

$$MV = PT \quad , \quad \frac{MV}{T} = P$$

M amount, V velocity, P price, T trade value

price level varies inversely with trade volume

M) Both currency & demand deposits. Prices in gold standard countries must be =. Gold production in depression highest ever. – low prices.
Gold hoarded in India. '31, converted into pds.
Trend toward less cash reserve. Different in depression.

IX Velocity of money & volume of trade

Depression, 50% decrease in V, 30% in M.
V increased in German inflation – desire to be rid of money.
Demand deposits have higher velocity than cash. N.Y.C has highest V.

T lags behind V

V (cont.)

b) Fiscal agents for U.S. - collect taxes, sell bonds, etc. '35, forbidden to loan to gov.

c) Supervision of banking operations, (all members & most others under Fed. Deposit Insurance Corp.)

d) Loans & investments.

Deposits at Fed Bank are just debts, payable on demand. (Fed. Banks must pay)

Fed. banks make loans, demand deposits, (p. 103 ?). Must have 35% lawful cash. May exchange Fed. Res. notes for gold certificates, etc., or pay them for investments, backed by 40% gold certif.

May lend to anybody. Mostly to member banks, on a) short-term promissory notes in production b) Their own promissorys, U.S. bonds as collateral. Borrow on commercial paper by rediscounting or pledging as collateral for own promissory notes.

Now, banks can borrow on formerly ineligible paper, at 1½% higher rate, since '32 somebody wanted them encourage them.

Open-market operations — Bankers' acceptances & Gov. bonds bought & sold. When Fed. banks buy, they increase reserves & increase cash, & vice versa. Important weapon.

VI Quantitative control of Bank Credit.

A 17 billion $ for cash, 3 billion locked up. 13 billion used.

a) Monetary gold stock — Treas. buys & sells freely, it may be imp. & exp., so changes have effects. Gov. buys gold with Fed. Res. notes, increases demand deposits, & vice versa. Imports & exports change its value, '34, gov. changed value, 20.67 to $35, made 2 billion.

b) Treasury currency — (nat. bank notes, greenbacks, silver certs., Treas. notes of 1890, silver dollars, & subsidiary coins). Since '32, increase of silver, decrease of nat. bank notes

c) Fed. Res. Credit. These 3 used as cash & member bank reserves.

Other purposes for which used - 1) Locked in Treasury & Fed. Bank vaults.

2) Nonmember bank deposits at Fed. bank.

3) Misc. Fed. Res. accounts.

B. Control of Quantity of money

1) Affecting quantity of members reserves

2) varying reserve requirements

1) a) by rediscount rate.
Raise it, discourage loans, shrink cash, vice versa. Weak, however, because banks don't like to borrow anyway

b) Direct action — "moral suasion.

c) change discount rates on acceptances.

d) open-market sales & purchases of U.S. securities
Sell to contract.

2) Change reserve requirements.

III Credit & its instruments

Public & private, consumptive & productive credit. banks buy
Instruments - promissory notes (bonds) (commercial paper) - open market
and customers) Promissory note payable on demand - call loan. (purpose
bank loans to customer
to buy securities "on margin" - call loans are for the margin, the sum security
pledged as collateral for loan with which to buy it. Highly sensitive market.

Bill of exchange, draft - order (as opposed to promise) to pay. Bankers bills & trade bills. Time drafts (short term) & demand drafts. Bank check a demand draft. Clean & documentary (bill of lading & warehouse receipt) bills of exchange. ½ all bills of exchange from international trade.

IV Investment institutions & commercial banking.

A) Intermediary investment inst. (no credit creation power)

a) Investment banks (security merchants) purpose security.

b) Investment trust - ~~like bnks~~ sell stock, buys divergent securities.

c) Bldg & loan ass., mortgage co.s, insurance cos, savings banks

B) Banking system of U.S.

16 000 banks, 900 savings & 15,100 commercial. All savings banks state.
5,400 are nat. banks. Few are incorp.

C) Commercial banks

Create demand deposits.

Bank notes - circulating promissory notes. Overissue common in unregulated days.
1865, 10% tax on state bank notes. '35, nat. bank note's collateral bonds retired, notes themselves now going. Fed. res. notes left.

D) Limitations on creation of demand deposits.

26%, 20%, 14%. 6% on time deposits.
(36-37, requirement doubled to prevent inflation)
Vault cash, 4% usually.

V. Central banking & Fed. Res. system. (est. 1914)

40 c/o of commercial banks are members with 60% assets. Members buy stock. Pres. & Board of directors for each bank; Board of Governors in Wash. (presidential, senatorial appees); Open-Market committee. Fed. Advisory Council. '35, more power to the governors.

Functions — clearing & collecting checks (interdistrict settlement account in Wash)

Luthringer, Chandler, Cline

I. Ec. significance of money

A. Functions & significance of money

Barter resorted to in depression. Difficulties – requires coincidence of wants; things indivisible; no measure of value.

1) medium of payments 2) measure of value 3) standard of deferred payments 4) store of value. General acceptability essential. Unit of account. – standard money. Before depression, gold was measure of value but not medium of exchange – all freely convertible to gold. ($ = 13.71 grains gold now; once 23.22). Pound now inconvertible. $20.67 peg once to $35. peg once

'33, gold clauses nullified, all ~~stuff~~ made legal tender. 1896–1913, $ down ⅓; 1922–32, $ up ½. 1930–33, hoarding.

Depression, deflation; boom, inflation.

II. Kinds of money

First, commodities, durable goods. Metals. Token money; precious metals. 7th B.C., Lydia, coinage. Paper money – convertibility not essential. Banknotes – accepted in past, with no guarantees. 90% business transactions in demand deposits.

I. Full bodied money – free coinage, gratuitous coinage.

II. Rep. full bodied " – warehouse receipt for full-bodied, or bullion. (out since '33)

89. gold cert.

III. Credit money – market value greater than materials.

A. Gov.

500. — 1. Token coins – limited coinage. seigniorage profit. Free convertibility with standard money.

silver cert. 1,052. — 2. Rep token money – warehouse receipt for token money

3. Circulating promissory notes issued by gov. – greenbacks, 1879, now inconvertible. 347 million $. Treasury notes of 1890 – 150 million, all retired but 1. → now 289.

B. Bank

F.R. notes 4,189.
F.R. banknotes 38.
Nat. bank notes 275.

— 1. Circulating promissory notes – National Bank Notes, rapidly being retired. Fed. Res. notes, considerable.

— 2. Demand deposits.

21,814. – (F.R. banks only)

Staehle - May 21

Neal is dull, & stinking. He recommends Mendershausen, Economics of War. Out of date, but principles are there. Would be good for final exam, Brown book not.

Effort we are putting out now is cost of war. 1) Increased production & 2) decreased consumption, & 3) Capital Consumption & 4) Liquidation of foreign Assets (important for G.B. - They liquidated (sold) shares of stock in Am. corps. held by Brits., slowed stock market rises, thus got money credits with which to buy Am. goods)

Financial aspect is buying bonds. It could be done simply by printing money, letting prices skyrocket & reduce consumption. However, that means social injustice. People would get greater $ incomes, but their labor would not increase supply, prices up.

Interest & amortization on war debt is simply redistribution of wealth (- yeah! - poor are taxed, rich get it)

Bus. cycle

Distribution

War

Int. trade

Wages

Banking system