Gresham's Law.

The overvalued metal—the metal that is not really worth what the mint says it is—will then stay in the country or even pour into the country from outside; the undervalued metal—the metal that is worth more of the other metal than the mint will give for it—will leave the country. In other words, where two metals circulate as standard money, bad money—money not intrinsically worth the value stamped on it—drives out good money—that which is worth the face value stamped upon it. This principle is known as Gresham's Law.

One does not, however, have to go to a bimetallic country to see the operation of Gresham's law. This can be seen among ourselves. It is common experience that a five dollar gold piece gradually loses a slight fraction of its weight through abrasion—so that a gold piece ten years in circulation is appreciably lighter than one which is fresh from the mint. Now wholesale jewellers get a large part of the gold used in their business by melting down sovereigns or other gold coins. Evidently they will have more gold if they melt down the new coin just issued from the mint. Here again the old light coin is allowed to remain in circulation, because owing to abrasion it is no longer worth quite the value stamped upon it, while the new heavier coin, the gold in which is worth the face value, is melted down. "Bad money drives out good."

Here is another case where Gresham's law might come into operation among us. Suppose the Dominion Government were in financial difficulties and were unable to give you gold in return for Dominion notes. What would happen? Why, this—whenever a piece of gold was paid to you, you would hold on to it, hoard it up for a rainy day, because it would still be good money, you could still get what you wanted for it, whether the Dominion Government became bankrupt or not. In other words, you would withdraw the good money from circulation while you would pass on to other people the Dominion notes received