This tendency to invest surplus cash in loans or securities will continue until deposits have risen to $175,000, i.e., until the customary 10 per cent ratio has been restored, when there will be no more surplus cash. The Chartered Bank's balance sheet will then be as follows:—

Assets		*Liabilities*	
Cash	$ 17,500	Deposits	$175,000
Loans and Investments	160,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$185,000		$185,000

The sequence of events would be only slightly different if the Bank of Canada originally purchased its $7,500 worth of securities from the Chartered Bank rather than from John Smith.

In the first instance there would be no change in the Chartered Bank's deposits; it would simply have exchanged interest-bearing securities for non-interest-bearing cash. It would lose $225 a year in earnings and the Bank of Canada would gain by a like amount. Its balance sheet would have changed as follows:

Before

Assets		*Liabilities*	
Cash	$ 7,500	Deposits	$75,000
Loans and Investments	70,000	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$85,000		$85,000

After

Assets		*Liabilities*	
Cash (previous 7,500 + 7,500 bonds sold to Bank of Canada + 2,500 deposited by Gold Mining Company)	$17,500	Deposits (previous 75,000 + 2,500 deposited by Gold Mining Company)	$77,500
Loans and Investments (previous 70,000 — bonds sold to Bank of Canada)	62,500	Capital	5,000
Other Assets	7,500	Other Liabilities	5,000
	$87,500		$87,500

In the second stage there would exist the basis for a $97,500 expansion of loans or securities, and thus deposits, rather than one of $90,000 as in the example previously given. The same considerations would apply and the Chartered Bank's final balance sheet would be the same.

The net result of the chain of operations which began with the Bank of Canada's open market purchase of $2,500 of gold and $7,500 of securities has therefore been to increase the Chartered Bank's deposits (and thus the volume of money in the hands of the public) by $100,000. But this did not take place immediately, in a single step. A whole series of transactions was necessary and the process of expansion could have been checked at any time through any one of the following developments—a need for more notes for active circulation, a lack of desire to deposit, or a dearth of suitable loans or investments.

When the banking system includes not one but ten banks the process of expansion becomes still less automatic so far as any individual bank is concerned. If none of the surplus cash which it pays out for loans and investments at a given stage comes back to that bank then or later, its share in the expansion is finished. The expansion of assets and deposits of the system as a whole tends to go on, of course, so long as there is any bank in the system with a cash ratio perceptibly above normal. But the ability of any individual bank to gain its