there will be a fixed ratio between the two. That ratio is expressed in the prices of commodities. The total of commodities being bought and sold is measured by the total amount of money available for purchasing them. A ratio is established, and as long as the total quantity of goods and the total quantity of money remain unchanged, the ratio between them will broadly speaking remain the same. That ratio being expressed by prices, the *prices* of commodities will under such circumstances also continue unchanged.

But suppose that without increasing the quantity of money you suddenly double the quantity of necessaries and luxuries in existence and desired by the people of the world, you will then only have the same amount of money against double the quantity of goods which are to be bought. It is obvious that in order to exchange one for the other you will have to exchange double the quantity of goods for the same quantity of gold, that was in existence before. In other words an ounce of gold will have to be exchanged for twice the quantity of goods that it was exchanged for when there were fewer goods to be purchased. Two barrels of flour will be represented by the same amount of gold that one barrel represented before. In other words the apparent value of a barrel of flour as expressed in money prices, would be only half what it had been. Prices of commodities would then have dropped and gold would (in monetary parlance) have appreciated.

This rule works both ways, of course. If on the other hand you suddenly double the amount of gold employed in purchasing goods, and at the same time do not materially increase the quantity of goods that are to be bought, you will then find that an ounce of gold will only buy half the quantity of goods it would buy before. If in the first instance a gold coin would buy one barrel of flour, you would find, (when the whole stock of gold was suddenly doubled), that the same gold coin would only buy half a barrel,—that you would have to pay two coins instead of one for your barrel of flour.

Flour would have doubled in price. A given quantity of gold would buy less, i.e., gold would have depreciated in real value. An increase in the quantity of money therefore tends to make prices of commodities advance, which is the same thing as saying that money is depreciated.

This principle is known as the quantitative theory of money. It is bourne out by experience as well as by common sense. Whenever in the past new Gold Fields have been discovered, accompanied by a large addition to the available stock of gold, there has followed a steady rise in the prices of commodities.

It is this principle more than any other that is responsible for the enormous advance in the prices of commodities during 1915, 1916 and 1917, and it is still operating.

When the war broke out the belligerent nations were suddenly called upon to expend vast sums of money, and as none of them had gold enough to use gold exclusively for the purpose, they one and all began to manufacture and to issue paper money which they guaranteed as *sound money*, i.e., as equivalent to gold, and in many cases they made it legal tender by legislative enactment, i.e., they made it legal for the payment of all debts. They added artificially to the quantity of money available for making purchases, and this process has been going on at an increasing rate ever since. Thus the quantity of money has been enormously increased. At