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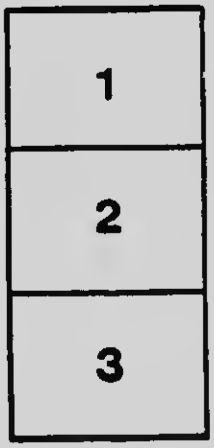
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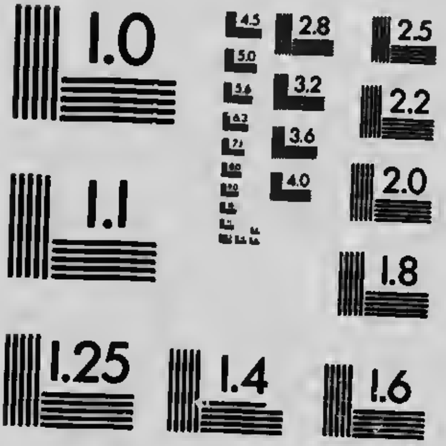

ECONOMICS

LESSON 1

By

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THE

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TORONTO, - CANADA

ECONOMICS

LESSON I

Fundamental Definitions.

IN this materialistic age it may seem unnecessary to insist upon the importance of the economic factor in human life. Yet the average man scarcely realizes how profoundly his own life and its circumstances are modified, not only by his individual financial position, but also by the accumulated wealth of the society in which he lives. His house may be lighted by power generated at Niagara and brought to him over a transmission system which has cost millions of dollars to produce; it may be heated by coal mined hundreds of miles away and conveyed to him over an enormously expensive system of railways and steamships. But such stupendous investments of capital as are sunk in the American or Canadian railway systems would have been quite impossible half a century ago, for the whole wealth of these countries at that time would have been insufficient to construct these great railways. In order that such railways should exist for the public service, it was necessary that billions of dollars should be saved from the incomes of citizens of these and other countries, and then invested in the building of railways. If this money had not been saved and invested, our modern transportation system could not have existed, and our householder—our consumer—would have had to pay more dearly for those commodities which must be brought to him from a distance. Our producers in all lines of effort would have been restricted to the narrow local market for their goods, and, because of the limited number of consumers, production on a large scale, with its consequent cheapness, would have been impossible.

Such investments as these mean not only greater cheapness of commodities; they often involve for a community the preservation of life itself. In China, where there are as yet very few railways, the people of a famine-stricken province die off by hundreds of thousands when grain is going to waste within a hundred miles of them. In India, where under the British occupation 25,000 miles of railway have been built, corn can easily be rushed into a famine district, and the widespread famines which used to desolate the country are almost a thing of the past.

Nor is the economic advance of man without influence on his higher life. Compare the primeval man or the savage of to-day with the citizen of a civilized community. The savage lives usually from hand to mouth, has no leisure for thought, is unable to turn to account the natural forces which he sees in operation around him. He is usually short-lived, liable to attacks of epidemic disease, ignorant and improvident, almost as much at the mercy of nature as are the lower animals. Take away his accustomed food, and he perishes; restore it, and he multiplies; transfer it to another region, and he must follow, as our Indian tribes used to wander after the herds of buffalo over the vast plains of the West. In such a society neither art, nor literature, nor religion, can ever flourish. These imply the existence of individuals who do not need to devote all their time to the mere securing of food; the life of the savage is so precarious that no one can be spared from that most necessary work of "keeping the wolf from the door." Hence no considerable degree of mental development has been or can be attained in a primitive community.

At a comparatively early period, however, the most enterprising nations found it possible to withdraw a number of their people from actual manual labour and dedicate them to the pursuit of what we often call "the higher things of life." The rest of the population became mere hewers of wood and drawers of water for these favoured individuals, and toiled throughout long centuries to provide their lords and masters with the wherewithal for a refined and luxurious existence. Slave labour was the material basis of the splendid civilizations of Greece and Rome. The many were sacrificed in the interests of the few. Only thus were those early civilizations possible, for the means of production were so primitive and laborious that leisure and the comforts of life could not as yet be provided for the masses of mankind.

Within the past century man's increasing control over the forces of nature—his ability to make them work for him—has enormously increased the production of wealth in civilized countries. The average money income of the English family of five persons is now $1,000 per annum as against $375 in 1820, and owing to the greater cheapness of commodities, this $1,000 will purchase nearly as much as $2,000 would have purchased in 1820. In a word, the average English family is from four to five times as well off as it was a century ago. Its income has from four to five times the former purchasing power. (See Marshall's Principles of Economics, 5th edition, page 751, note). This fact is of tremendous significance. It means that we have reason to hope that in the course of time an ever-increasing portion of our people will be released from the drudgery of mechanical manual labour and will be able to devote a large part of their time to public affairs, literature, art, science and religion. The utilization of the elements in the service of man is giving us the necessary economic basis for a real democracy in which all the citizens will be men of education and culture.

The Problem of Poverty.

We are still far from attaining this ideal state of affairs. Even in such a wealthy country as England a large portion of the population does not possess a sufficient income for a decent existence. Booth's exhaustive and scientific enquiry into the "Labour and Life of the People" showed that 32%—practically a third—of the whole population of London lived in a state of poverty "incompatible not only with the elementary conditions of civilization and citizenship, but with physical health or industrial efficiency." The greatest of the social problems which confront England to-day is how to raise these people from the degradation and pauperism into which they have sunk, and make them efficient and industrious producers, self-supporting and decent citizens. Hundreds of scientific economists, thousands of disinterested social workers, are giving their time and attention to the solution of this problem, and the mass of ignorance and vice is gradually being diminished. But not so quickly as one would wish, for the difficulties are many and formidable.

"The destruction of the poor," we are told, "is their poverty." The poor man is unable to educate his children, and therefore they remain at the bottom of the social scale. They are sent into the factories or put to work on the farm before they have passed the entrance examination, and often before they have attained the age of fourteen. Always, of course, a few of the abler and stronger-willed triumph over their handicaps, educate themselves and finally attain distinction. That has always been the case and always will be. But the average boy, when placed in such a situation accepts it and remains throughout life in the position of an unskilled laborer, whose work is worst paid and most precarious, since the supply of such labour is nearly always in excess of the demand. A poor education, then, makes an inefficient producer; that inefficient producer is poorly paid, and consequently his children also have very limited opportunities of education. They in turn become inefficient producers, receiving low wages, and thus poverty is perpetuated from one generation to another.

The only satisfactory way to deal with this terrible problem of poverty is for a nation to do everything in its power to bring all its citizens to the highest degree of productive efficiency by giving them all possible educational advantages, especially along the lines of scientific, agricultural and technical and business training. This is now widely recognized both by governments and individuals. Such institutions as the Ontario Agricultural

College and the Toronto Technical School far more than repay the comparatively small cost of their maintenance. Besides their direct influence on their graduates, they also influence indirectly all with whom these come into contact, creating better standards of farming and of workmanship. These standards are in time accepted throughout the country, whose wealth is thus enormously increased.

To sum up, then wealth is exceedingly important to a nation as to an individual. With wealth as a general thing are associated civilization, knowledge and even virtue; with poverty, barbarism, ignorance and vice. The great Greek philosopher, Aristotle, said that a certain amount of external goods was necessary to the development of virtue. This opinion has its modern echo in the question so often heard in the England of to-day, "Can a man be a Christian on £1 a week?"

The Science of Wealth.

Political economy is the science of wealth and treats of how wealth is produced or may best be produced by man, and how it is or ought to be distributed among the various classes who contribute to its production, and finally how it is or ought to be consumed. It may also be defined as the science of man regarded purely in his economic function as a producer, distributor and consumer of wealth. It is thus a part of the study of man.

Now the real man as we know him is never purely a producer, distributor and consumer of wealth. He has usually religious or political feelings, artistic, literary or possibly military ideals to which he is at times ready to sacrifice all his economic interests. He does not always act as he would if he were simply and solely a wealth-getting machine. So that the conclusions reached by the political economist as to the probable action of men under certain circumstances are always liable to be overturned when brought to the test of fact. In the Dominion elections of

1911 many people voted against reciprocity on other than economic grounds.

The average man, then, is not simply and solely a money-making animal, but he does tend to be such in his business relations. He is "not in business for his health," he is in business to make money, and good business men, when they are philanthropists, prefer to keep their business separate from their philanthropy. The sure way to bankruptcy, they tell us, is to mix business with charity. They would rather pension off an aged employe who had served them in the past than keep him on at work in a position where he could not earn his pay and was all the time making mistakes. The business man, then, in so far as he is simply a business man, aims at making the largest possible profits on his aggregate trade. If he sells some things at a small profit or at no profit at all, it is because he expects by this means to increase his trade, widen his circle of customers, and secure a larger total profit.

The so-called "soulless corporation," which is now controlling most of the larger business enterprises throughout the civilized world, is even less likely than the average business man to be influenced in its actions by non-economic motives. Its aim is simply and solely to make money for its shareholders; its officials are the paid servants of the shareholders, and have no right whatever to grant specially favorable treatment to their personal friends at the expense of their shareholders. Take as an example two wholesale houses, one owned and managed by a single merchant, the other owned by a joint stock company and managed by a paid employe of the company. Then suppose a third man, well known to both the owner of the first store and the manager of the second, approaches both these men to ask for credit for his retail store. The first merchant, owning his own business, may feel that he can afford to oblige an old friend, even if the security for repayment appears to him insufficient; the loss, if loss is incurred, will fall on himself alone, and no one else has the right to call him to account. The mere manager, on the other hand, cannot afford to take any chances; he is paid to look after the interests of his shareholders, and every business act of his should be able to stand their closest scrutiny. If he neglects the interests of his employers—the shareholders—in order to serve his friends, he betrays the confidence reposed in him, and deserves to be summarily dismissed. This rule of conduct is now being more and more stringently observed, so that modern business is transacted in much more strictly economic fashion than that of former times.

The Meaning of Wealth.

Political Economy is, we have said, the science of wealth. Now what do we mean by "wealth?" Wealth is all that which has value in exchange. The economist is not concerned with all valuable things or with all useful things, but only with commodities which, owing to a limitation in their quantity or a difficulty in their attainment, have a value in exchange which can be measured by price. Such commodities as water, since they exist in such abundance that all men may, under ordinary circumstances, have all they want for nothing, have practically no value in exchange, though they have a value in use. Anything which possesses value in use may, under certain circumstances, have a value in exchange. Water may be so scarce in the Sahara desert or air in a submarine boat that people would be willing to pay very highly for it.

Wealth may be either material or immaterial. Material wealth includes not only houses, lands and furniture, but also shares and mortgages—since these represent a part ownership of property. For instance, a $100 share in a Canadian chartered bank with a capital of $1,000,000 represents one ten-thousandth part of all the real estate, etc., in the possession of the bank. An example of immaterial wealth may be found in the sale of the goodwill of a business or of a doctor's practice, which, although quite intangible, have often a very considerable value in exchange.

Besides these two kinds of wealth, we have also what is known as personal wealth. By this, we mean the untransferable skill of the workman or the professional man—capacity residing in a living person and arising from the fact that his proficiency in some line of effort enables him to produce values in exchange which other men cannot produce. This personal wealth may be described as the capitalized value of the skill of the workman or of the professional man. It cannot be transferred, but its kinship to wealth is established by the fact that its products—its results—are transferable. One man, we will say, reaches the age of twenty-one an unskilled laborer—having had no special training in any useful line of activity; another man, at the same age, has a thoroughly good business training or a university degree. The first may be worth to his employer $500 a year; the second $1,200. No one would doubt that the second man is on the whole wealthier than his neighbor, even if he had not a cent to his credit on his twenty-first birthday, while his rival had some hundreds or even a thousand dollars in the savings bank. The first man had put his $1,000 out at interest and drew 3% on it; the second had invested it in developing his brains, recognizing the fact that brains pay a higher dividend than 3%. The skilled farmers who are now flocking in such numbers into our Northwest would be a great asset to the country even if they did not bring a cent of money with them. Their scientific training and skill, though not themselves wealth, are in the highest degree productive of wealth, and thus they make the country richer.

Value and Price.

Value is a word derived from the Latin verb **valere,** to be strong or powerful. When we say, therefore, that wealth is all that which has value in exchange, we really mean all that which has power in exchange—the things a person possesses that are desired by other people, who are consequently willing to give him the things he desires in return for them. The value of one thing in terms of another at any place and time, is the amount of the second thing which can be got there and then in exchange for the first. We might say, for example, that two cows are worth one horse, if we can get a horse in exchange for them. The difficulty about an assertion like this is that one horse is different from another; and whereas a certain horse might be worth only one cow, a certain other horse might be worth ten cows. And so too with the cows; one cow might be more valuable and another less valuable than the average, and so it might be worth more or less than half a horse. And, further, it may be that though I have two cows to dispose of, a horse may be of no use to me. What I need is to be able to exchange my cows for something of invariable quality and great desirability which I shall be able to exchange for anything that I may happen to want. This something which is invariable in quality and in exchange for which I can obtain anything I wish, is usually called money, or the medium of exchange. Suppose I have a horse and want sheep in exchange for it, I do not have to go hunting around for a man who has sheep which he desires to exchange for a horse. That might cause a great waste of time. I simply sell my horse to the first man I meet who is ready to give me a fair money equivalent for it, and then use the money to buy sheep from the first man who offers them for sale on terms that suit me. The money I got for the horse has been the medium of exchange which allowed me to secure the sheep or whatever else I needed.

The value of a commodity as expressed in terms of money is called its price. Money is used to-day in practically all the countries of the world as a medium of exchange, because it saves time, as compared with the old process of exchanging directly the commodity one had for the commodity one wanted. This older process was known as barter. To-day money is used almost everywhere and the money that is used is nearly always either gold or, like our Dominion notes or silver, representative of gold. Now pure gold is a chemical element, and therefore a certain quantity of gold is always worth precisely the same as any other equal quantity of gold. Thus by using gold we get over the difficulty of the varying usefulness of different cows and horses.

Value depends partly on usefulness, partly on scarcity. Usefulness or utility will not in itself make an article valuable, for no one will pay for what is so abundant that he can get it for nothing. Scarcity alone will not make an article valuable, for no one will pay for an article which is of no use to him. Along with usefulness and scarcity an article must of course possess transferability to be valuable in exchange.

Utility or usefulness is an important word which is liable to be misunderstood by the beginner. He must remember that the economist can make no attempt to distinguish between the useful and the ornamental. All that man desires for any purpose has, from the economic point of view, utility, though it be a postage stamp collection, a picture gallery, or an automobile. All that a man desires has for that man utility. It has utility from the point of view of the economist who is watching that man's actions.

The value of a crop, however, does not depend only on its utility. Suppose that in 1910 there was a scanty wheat crop and wheat was consequently sold at $1.00 a bushel, while in 1911 an abundant wheat crop brought down the price of wheat to 75 cents. Now a bushel of wheat in 1911 has just the same power in the support of human life as in 1910. Why then should it be cheaper? Simply because there is so much wheat on the market that the buyers feel that they can readily obtain, at a low price, all the wheat they want, while the sellers are forced to dispose of their wheat in order to purchase the other commodities of which they have need. In years of abundance the whole country is like a small boy at a fair, who has almost satisfied his desire for food and will not now pay nearly so much for additional food as he would have paid for precisely the same eatables when he was hungry.

Law of Diminishing Utility, Consumer's Surplus.

This example brings us face to face with one of the greatest laws of economics and of human nature. It is known as the law of diminishing utility, and may be briefly stated as follows:—the value of any additional quantity of an article to a consumer decreases with every increase in the stock of that commodity he already has. For only a certain amount of any commodity will a man pay the market price. Beyond this limit he will buy only at what he considers bargain prices. The last amount for which he will give the market price of the moment is called his **marginal purchase,** and the utility of this marginal purchase to him is described as the **marginal utility.**

Suppose a small boy is on a train and arrives at a railway station where there is only one seller of food. The caterer notices the boy's eyes fixed greedily on the ham sandwiches. The youngster asks the price of a sandwich and is told "25 cents." He protests that this is robbery, but the seller is inexorable, and at last he pays the 25 cents for the first sandwich. This takes the edge off his appetite, and when the caterer asks him if he wants another sandwich at the same price, he will refuse. However, if the caterer brings the price down to 20 cents, he may buy. Similarly, he may be willing to pay 15 cents for a third, 10 cents for a fourth, and 5 cents for a fifth sandwich, but may decline to pay even 5 cents for a sixth. The first sandwich is his marginal purchase when the price is 25 cents, the second when it is 20 cents, and so on down to the fifth sandwich, which is the marginal purchase when the price is 5 cents. The utility of each successive sandwich to the boy is measured by the price which he is willing to pay for it.

Now in actual fact this scene is rather unlikely to have occurred. The sandwiches were probably on the lunch counter plainly marked "5 cents each," and the boy paid 5 cents for his first sandwich just as he paid 5 cents for his fifth. He would decline to pay 5 cents for a sixth, just as he did in our hypothetical case. That is, the purchase of the fifth for 5 cents would still be the marginal purchase. Thus he got 5 sandwiches for 5 x 5 cents, instead of for 25+20+15+10+5, or 75 cents. In other words, he got out of his sandwiches for which he actually paid 25 cents enjoyment for which he would have been willing to pay 75 cents. That is, the total utility of the sandwiches to the boy is measured by 75 cents. The difference of 50 cents is what Marshall calls **consumer's surplus**—the difference between what the consumer would have been willing to pay for the various unit quantities of the commodities consumed and the amount which he actually did pay for them at their market price. One can easily prove by reference to one's own experience as a purchaser the existence of a consumer's surplus.

How Demand is Regulated.

Statisticians are fond of reckoning the total amount of a certain commodity consumed in Canada, and then dividing that total by the number of the people in the country, thus finding out how much tea or sugar or bread the average Canadian consumes. Suppose that we begin our calculation of demand with this average Canadian and say that he will consume 1 pound of tea a year when the price of tea is $2 a pound, 2 pounds if he can get it for $1.50 a pound, 4 pounds if he can get it for $1.00 a pound, and, say, 10 pounds if he can get it for 50 cents a pound. In other words, if the market price of tea were 50 cents, he would be willing to buy 10 pounds, but he would not pay 50 cents for the eleventh pound, because, owing to the law of diminishing utility, the amount of pleasure given him by that eleventh pound of tea would not be worth to him 50 cents.

We have assumed that this man is an average Canadian. Then, if the population is 8,000,000, the amount of tea sold in Canada will be 8,000,000 pounds if the price is $2 a pound, 16,000,000 if the price is $1.50, 32,000,000 if $1, 80,000,000 if the price is 50 cents. Assuming that at the different prices the demand* for tea is as we have indicated, we notice that as price decreases the demand for tea increases; or, in other words, the larger the amount of tea or any other commodity which has to be sold in Canada in a given time, the lower will the price have to be in order that it may be disposed of. A merchant overstocked with fruit on Saturday night, often sells at a considerable loss for fear that at ordinary prices much of his fruit would be left on his hands and would be a total loss. On such occasions there is no limit to the price to which the article may drop, only temporarily, of course, since on the whole of his sales during the year the average fruiterer must make enough to live, else he would not remain in the business. But though prices vary greatly on such perishable commodities as fruit, the variation is comparatively little on more stable articles. When the market for these is glutted and the sellers cannot realize a fair price for them, they simply store them and wait until the market absorbs the surplus goods and recovers its equilibrium. Sometimes, however, the seller needs the money he has locked up in his goods, and has to sacrifice them at an excessively low figure.

So much, then, for the demand side—the side of the consumer—in the market. Now let us look briefly at the supply side—that of the producer.

How Supply is Regulated.

When a man produces, he is producing utilities, not matter—that is, he is making things more useful to mankind than they were before, as in the case of a tree turned into tables and chairs, etc. In return for the labour in-

* The demand mentioned here is what the economist sometimes calls efficient demand—that is demand backed by the wherewithal in money or goods to exchange for the goods desired. A person's mere desire for an article cannot have any effect on the market for that article unless he has the money to pay for it.

volved in doing this, he must receive at least his cost of production, not necessarily on every article he makes, but on his whole product. If producers of that particular commodity are scarce and at the same time there is a great demand for it, he will probably receive a great deal more than his cost of production. This was the case with the bicycle makers about fifteen years ago and with the automobile makers a year or two ago. But this leads producers in other lines to give up their trades and go into this; the final result is that production in this line expands to meet the demand and profits decline. If, on the other hand, producers of the commodity are many in number and demand for it is at a low ebb, the producer's reward tends to go even below his cost of production. Then some of the producers go into other work, the quantity of the commodity produced decreases, and consequently the producers are once more able to get a price equal to or greater than the cost of production.

It is, indeed, a commonplace of political economy that profits in all trades tend to a uniform level for men of about the same grade of ability, because men are always looking out for an opportunity of going into a highly remunerative occupation, such as auto-building, and any occupation which pays unusually high profits will probably attract so many other producers that in course of time the market will be over-stocked in a highly skilled trade. However, the first producers will for some time have a practical monopoly of the production, because it will take other producers years of effort to get a large body of trained men working harmoniously together to produce their wares. It will take years of advertising to build up a reputation for the new-comers' goods in opposition to the established reputation of the old. Thus the first men in the field have, in all probability, amassed a fortune during the period when they were the only producers. The makers of important patented articles are in a somewhat similar position. They are monopolists who can charge what they please for their products, but will certainly not charge so much as to discourage people from buying them.

Price Decided by Supply and Demand.

The market price of an article is decided by the equilibrium between supply and demand. It must approximate to the figure at which the demand of the consumer is sufficient to absorb all of the product. On the other hand, market price tends to react upon supply and demand. The most ordinary instance of this is when farmers give up producing a certain crop which has been selling at unremunerative prices. This commonly causes a scarcity of that particular crop, with higher prices, and it is said that farmers of greater than ordinary shrewdness will often continue to plant that crop in the expectation of this result.

N.B.—The next lesson will deal with production. In order that they may be able to understand it, students are particularly requested to make themselves thoroughly familiar with the economic terms used above. While the lessons are complete in themselves, students may, for supplementary reading, refer to Seligman's Principles of Economics, part 1, chap. 1, and part 3, chap. 1; to Marshall's Economics of Industry, book 1, chap. 1, and book 2; also to Gide's Principles of Political Economy, book 2.

EXAMINATION QUESTIONS

ECONOMICS.

LESSON I.

Directions to Students.

Under the heading "Examination Questions" is a series of test questions which are to be fully answered and sent in to our Instruction Department for correction and criticism. You are requested not to answer these questions until you have thoroughly mastered the contents of the lessons on which they are given.

After mastering the contents of the lesson and studying each question thoroughly, write out your answers to all the questions as far as possible without referring to the subject matter of the lesson. In fact, we would strongly advise you under no circumstances to refer to the subject of the lesson when once you have set about to write your answers.

You will find it a good plan after you have written out your answers to check over your work in order to detect any errors, then re-write your answers, using pen and ink, and being very careful of your penmanship, spelling and composition.

Prepare paper for sending in as follows: Leave a margin of one inch at left edge of paper, rule a vertical line for this margin in red ink. Number your questions consecutively in this margin. Leave two lines blank after each solution. Write on one side of the paper only, numbering each page at the top in the right hand corner. In the left hand corner of the first page place your name, address and class letter and number, and in the centre of the page begin your lesson as follows:

Answers to Examination Questions.
Economics.
Lesson 1.

FOLLOW THIS PLAN IN ALL SUBSEQUENT LESSONS.

1. What purpose does our transportation system serve in modern times?

2. What would you consider the main points of difference between the savage and the civilized man?

3. What reasons have we for hoping that the comforts and the wealth of the masses of humanity will be increased as time goes on?

4. How are the nations of to-day attempting to better the condition of their poorer classes?

5. How far is the average man a "money-making animal" an "economic man"? Is he tending to become more so? Why?

6. What is wealth? Would you say that friendships are wealth? Discuss.

7. What is meant by personal wealth?

8. How does the use of money facilitate the process of exchange?

9. On what two things does value depend? Are the Socialists wrong in saying that the value of an article always depends upon the amount of labour it took to make it?

10. What do we mean by diminishing utility and consumer's surplus? Illustrate from your own experience.

11. What do we mean by **market price** ? how is it decided?

12. Explain the terms **supply** and **demand** in their economic significance.