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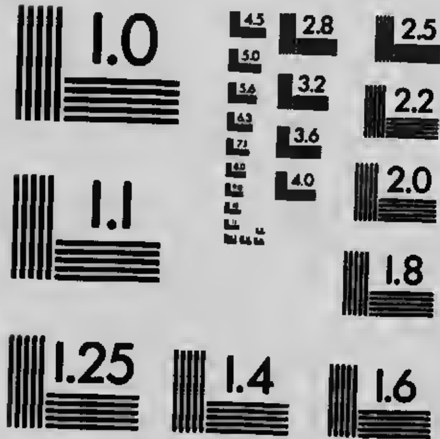

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ECONOMICS

LESSON 9

By

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THE

SHAW CORRESPONDENCE SCHOOL

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ECONOMICS

LESSON IX.

Credit in Exchange: Banking.

THE fundamental idea in credit is trust, *confidence*—the confidence of one person in another, which makes that first person ready to sell goods to the other without receiving money for them at the time of the sale. The seller becomes the creditor of the buyer and remains so until the buyer has paid in money for the goods, or until he has otherwise discharged the debt. There is no theoretical reason why the buyer should not pay in some commodity agreed upon at the time when payment is due, but as a matter of fact he practically always agrees to pay in money.

Credit involves the idea of deferred payments—the exchange of a present commodity—the goods in the possession of the seller—against a future commodity—the money which is to be paid by the purchaser. It is well defined by Joseph French Johnson: "Credit is an executory contract to deliver money, and is accepted as a means of payment because the acceptor is confident that the maker will be able and willing to deliver the money if called upon to do so."

In business, a creditor does not usually extend credit unless he is satisfied of a debtor's ability to pay, or unless he has some security other than the latter's mere word. A bank when making a loan usually insists that the loan shall be used for what we call reproductive purposes. As the celebrated French economist, Leroy Beaulieu, says: "Credit should not be a simple anticipation upon future and uncertain wealth; it should have for its basis a thing real and actual—goods which are finished and which have not been sold; goods which, having been sold, have not yet been paid for; goods even, which are in process of manufacture, and of which all the elements have been gotten together; an enterprise which is not terminated, but which is already in a certain degree of advancement."

Credit Involves Higher Prices.

It must not be forgotten that credit prices are inevitably higher than cash prices. When the seller of an article agrees to wait for payment he puts himself to a certain amount of inconvenience and loss. The present possession of a given amount of commodities is always worth more than the right to receive an equal amount in the future. Besides this, there is always some uncertainty about anything which is to occur in the future—uncertainty as to whether the debtor will be able to pay, uncertainty as to whether the creditor will be alive to receive payment, and this uncertainty, as well as the inconvenience of waiting for payment and the risk of non-payment, must be paid for.

Importance of Credit in Modern Business.

While credit inevitably involves higher prices, its importance in our modern world is stupendous. It enables the individual to transact an extraordinary amount of business with a very small capital, and the community to get along with an amount of currency exceedingly small as compared with the amount of business transacted. The retailer often grants credit to the general public; the wholesale merchant grants credit to the retailer, enabling him to sell his goods to the public before having to pay for them; the manufacturer gives credit to the wholesaler, the bank to the manufacturer, the general public to the bank. So, then, we have a perfect circle of credit, including all those concerned in the production, the handling, and the consumption of the goods. Everyone believes that the person to whom he has granted credit will be able at the time agreed upon to meet the obligation with ready money. Usually this trust is justified; otherwise it would not exist.

The Failure of Credit.

Sometimes, however, for one reason or another—perhaps a failure in the crops which makes the farmer unable to meet his obligations to the retail merchant, who has trusted him for supplies, or to the manufacturer, who has sold him agricultural implements on credit—the debtor is unable to meet the payments agreed upon, and his creditors are consequently unable to discharge their obligations, and their creditors likewise, and so on. The shock of the crop failure is thus transmitted throughout the whole business world, just as the shock of a stone falling into water from a height is transmitted in widening circles throughout the whole expanse. As a result everybody, except perhaps the banks, ceases to give credit, and demands ready money for whatever he sells. Confidence, and with it credit, has departed, and as a consequence the business of the country contracts, bringing hardship to many and bankruptcy to some. Such a condition is known as a business depression or a "crisis." Its most disastrous effects may be avoided or at leat minimized by the granting of credit by our banks to all those entitled thereto, *i.e.*, to people who are really solvent but who are unable to realize on their property at the moment, and may thus be forced into bankruptcy. This is one of the greatest services the banker renders to the community.*

The Bank and Its Functions.

"A bank may be described in general terms," says Dunbar, "as an establishment which makes to individuals such advances of money or other means of payment as may be required and safely made, and to which individuals entrust money or the means of payment when not required by them for use." That is, its business is to make loans and to receive deposits. These are the essential functions, but in almost all countries some or all of the banks have the additional function of issuing notes—promises to pay which circulate practically on a par with money and are considered just as good as money. Sometimes these notes are legal tender, as in the case of the Bank of England's notes. Sometimes, as with us, they are

* Of course, a bank cannot in its own interest afford to jeopardize its financial position by unduly reducing its reserves in a "crisis" in order to help even its best and most solvent customers.

not. When the process of note issue is analyzed it will be found that it really is only a particular variety of deposit, in which the depositor of values with the bank receives promissory notes instead of book credit.

Definition of the Bank Note.

"A bank-bill or note is a non-interest-bearing obligation payable to bearer upon demand, in lawful money, title to which passes by delivery. The value of such note depends upon the financial credit of the bank issuing the same, the special provision of law for its redemption, the security set apart for such purpose, the fidelity with which such laws are enforced as to redemption, the character of supervision, and the degree of conservative banking thereby insured."—Comptroller Hepburn, Annual Report to Congress, 1892 (page 14).

Importance of the Bank-Note to New Banks.

The function of note issue, though not essential to a bank, is nevertheless very important historically, and thus deserves our careful consideration. In the early history of the banking systems of different countries, as well as in the early history of most individual banks, there was a time when either the banking system or the individual bank was too new, too untried, to secure the public confidence.* Many people still feel that since the interest paid by Canadian banks on savings deposits is almost universally three per cent., the savings depositor may as well put his money into the safest possible institution. This need not necessarily be one of the largest banks, but usually the depositor will think it is.

Here is where the importance of the function of note-issue comes in. If the State, under what the Americans call its "police power," permits the new bank to issue, with all

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* In new communities, too, there is very little surplus saved up, as money or capital which is not in active use. Thus deposits in such a community are small, and do not remain in the bank for long periods, as in older districts.

possible safeguards, promissory notes without interest, payable to bearer, the public will generally be ready to accept these notes, whose goodness is fairly well established under the Government's regulations. Various people who trade with the new bank accept these promissory notes in place of legal tender because they feel that their creditors will accept this bank-note currency likewise. Thus we have the promissory note starting out over the country. It may conceivably remain unredeemed for a year, in which time a ten-dollar note would earn an appreciable sum for the issuing bank.

Profit From Note Issue.

For every ten-dollar bank-note in circulation someone has given the bank values to the extent of ten dollars (or his promise to give those values plus interest at some date in the near future), and instead of legal tender has accepted in payment the non-interest-bearing promissory note. Possibly the same man brings in the note at the end of a year and receives only the legal tender which he might just as well have received at the beginning. In other words, the bank has had the use of the ten dollars for a year for nothing; it has gained the interest accrued thereon. Of course, he has much more probably passed on his note to another man, and he to another, and so on, so that the loss of each holder is exceedingly small.

The function of note-issue enables the bank to advertise itself as an institution with a strong credit. Thus it gradually grows in favor with the public, and by degrees people begin to drop in and deposit their savings with it; others come in to borrow money or to get credit.* In most cases

* In Prof. Seligman's collection of addresses on the Currency Problem, Mr. Frank A. Vanderlip, Vice-President of the National City Bank of New York, says: "The business of the modern bank is almost wholly the exchange of credit—to use a clear but homely phrase, the swapping of credits. . . . . Almost its entire business consists of receiving from customers their evidences of indebtedness, which have a narrow currency, and giving to those customers in exchange the bank's evidences of indebtedness, which have a wide currency." So, too, Mr. McLeod, in his evidence before the National Monetary Commission, stated that approximately 90% of the banks' total business in Canada is done by cheques.

where loans are made the amount of the loan is entered to the credit of the borrower as a deposit. Thus the liabilities of the bank—its deposits—and the assets—the money due it—are increased by the same transaction.

To young banks and banks in newly-settled districts the right of loaning to the public through note issue is of very great importance. Under our Act the notes of the new bank are just as good from the note-holder's point of view as those of the oldest and best established of banks. The note will remain in circulation wherever people are accustomed to accept such notes and to have them redeemed without question.*

Bank notes in circulation, though not money, are in fact a substitute for money. Now the coining of money is a Government prerogative—a Government monopoly—and probably by analogy, the Governments of most countries exercise a strict control over the amount of bank notes which a bank is allowed to issue, since these compete with money. Both Governments and banks are concerned to keep bank notes for all practical purposes on a par with money, the Government because it does not wish citizens to be victimized by banks of the meaner kind (as happened in the United States before 1850), the banks because they cannot circulate a single note unless citizens are ready to accept the notes freely. So when a bank note comes into your possession you may be sure that someone—the man who voluntarily accepted it from the bank in payment of a debt—trusted the bank with that value long before you received it. Also, the very fact that you have that note in your pocket indicates that you are in no hurry to have it cashed. Apparently you, as well as the man who first accepted the note from the bank, have confidence in the bank. You consider its promise to pay as being just as good as actual

* In 1825 the Bank of Montreal had notes in circulation to the amount of £137,580, and deposits of only £105,518. In September, 1912, it had notes in circulation to the amount of $15,628,802, deposits of $183,423,686. Thus the deposits, which were considerably less than the notes in circulation in 1825, were nearly twelve times as great as the notes in circulation in 1912.

money, especially as you can readily get your creditor to accept, though he is not legally bound to do so.

Safeguards of the Bank Note.

In Canada, as in most other countries, the man who holds a note of a bank has a special reason for giving it his confidence: he is in almost all countries a preferred creditor —a creditor whose claim ranks in advance of all others. In our own country no note-holder has lost a dollar since Confederation except in the case of the failure of the Mechanics Bank of Montreal, where the note holders were not treated as preferred creditors,* and the notes of our youngest and weakest bank pass current as easily as those of our oldest and strongest. We do not suppose there is a business man in the country who would refuse a note of a chartered bank—unless, indeed, it were one of a bank in process of liquidation. If he refused even this it would only be a proof of his ignorance, for the notes of an insolvent bank must either be redeemed by the liquidator within two months (with interest at 5% from the date of suspension to that of payment), or they will be redeemed with interest by the Minister of Finance out of the Bank Circulation Redemption Fund (a fund held by the Minister amounting to 5% of average note circulation, to which all banks must contribute, and out of which all notes of insolvent banks must be paid, even if the assets of the insolvent bank are insufficient to reimburse the Fund for the expenditure). The note of an insolvent bank, therefore, after the bank becomes insolvent, is really worth a little more than the perfectly good note of any other bank. Banks, therefore, willingly accept such notes from the public, knowing that there is a slight profit and no risk in handling them.

Another safeguard of the note-holder is to be found in the provision that all chartered banks must be prepared to

* For details of this feature, see Breckenridge, The Canadian Banking System, 1817-1890, pp. 217-218. The Mechanics' Bank was operating on a pre-Confederation charter.

redeem their notes at the leading business centre of each province.

Nor is this the only precaution. It is also provided by law that no bank shall issue notes to an amount greater than that of its paid-up capital, except in the months from September to February inclusive, when they may issue an extra amount equal to 15% of the combined amount of their paid-up capital and reserve. The banks must pay the Government 5% interest on this emergency note-issue. Thus note-holding creditors of an insolvent bank, could during half the year at least, be entirely paid off from the proceeds of the double-liability unless some of the shareholders defaulted.* The reason for permitting the emergency issue is simply that the extra notes are needed in the West to pay for the harvesting and sale of the crops.

So, too, in England note-holders are specially protected. There, the Bank of England, if we except a few survivals of old note issues from before the Bank Act of 1844, is the only issuer of notes. To secure all note-holders payment of their notes, it is provided that all notes must be covered either by gold or by the bank's holdings of Government securities or other securities approved by the Government. According to law, the first £18,450,000 worth of notes may be issued against the above-mentioned securities. For all notes issued above this, the issue department of the bank, which is entirely separate from the Banking Department, holds gold, either in coin or bullion. The bank has thus the gold ready to redeem all the notes that are ever likely to be presented for payment. It is well that the Government should make these stringent regulations, since Bank of England notes are practically the only paper currency used in England. Bank of England notes in England, like

* Consolidated Canadian Bank Act. Revised Statutes of Canada, 1906, chap. 29, section 125:—In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency, to an amount equal to the par value of the shares held by him, in addition to any amount not paid up on such shares.

Dominion notes with us, are full legal tender, except at the appointed places of redemption.

In the United States the bank notes issued by the National Banks must be issued only against United States bonds owned by the banks, but held by the Secretary of the Treasury. If a bank becomes insolvent its notes are redeemed by the Secretary of the Treasury and its bonds sold to reimburse the Government. Thus the notes of the United States National Banks are really issued against the Government's credit, and are safe to be redeemed as long as the Government itself is solvent. The citizen of Maine who receives a note of some little national bank in California does not have to speculate on the probable financial standing of that particular bank. His note rests on the general credit of the United States, just as our Dominion notes rest, to some extent, upon the general credit of Canada.

Freedom of Note Issue.

Lately there have been suggestions in Canada that all these special advantages given to note-holders should be abolished and that banks should be permitted to issue notes freely, and untaxed, to any extent required by the needs of business. The fact that under such circumstances notes would come into the clearing-house for redemption would, it is claimed, prevent an over-issue of notes at any time. What difference does it make whether a bank's credit is extended in the form of notes or by an entry in its books?

No doubt this argument is, from the business point of view, quite correct. Still the common-sense of nations seems to agree that the note-holder is deserving of special treatment. He is practically an involuntary creditor, while the depositor is a voluntary creditor, who might have put his money in the Post Office Saving Bank instead of the other, if he had wished to do so.

From the strictly economic point of view or the point of view of the banker, it may be desirable that our banks should be consolidated and no new ones established. Certainly the banks that have failed within the past generation have for the most part been young and short-lived. Yet the borrowing public generally would sympathize with the new bank, believing, as it does, that consolidation has already gone quite far enough. In this belief it is apparently arguing from its experience of loans. Possibly the saving public might have another story to tell. It is to their advantage to have their savings kept as safely as possible, while still obtaining a fair rate of interest for them. Some of them, as J. F. Johnson says, regard the established rule of 3% as too small a rate on savings deposits in such a young and developing country as this, but probably the majority value the use of cheques on savings deposits as a privilege which offsets the low rate of interst.

Advantages of Note Issue to the Public.

Why should banks have the right to issue notes at all? What advantage is there to the public in their doing so? The great advantage lies in the elasticity which these bank-notes give to our currency system. This may well be illustrated by the chart in J. F. Johnson's Canadian Banking System, p. 66. If you look at that chart you will find that in nearly all years the highest point of circulation is on October 31, the time when the moving of the crop is being financed. This elasticity enables our banks to aid greatly in bringing out the crops of the North-west. The United States, with its bank note circulation based on United States bonds, does not enjoy this elasticity.

The required elasticity in the supply of currency cannot well be secured through the use of Dominion notes, since the Government is not in touch with business conditions throughout the country as the banks are. It does not possess the machinery necessary for putting these notes into circulation at hundreds of places throughout the country. Thus the circulation of Dominion notes does not vary and cannot well be made to vary with the seasonal needs of business throughout the year.

Loans and Deposits.

Many banks, such as the American State banks,* do a thriving business without the function of note issue at all. They live by receiving deposits and making loans, and the former is often a consequence of the latter, so that we may consider lending, from the banker's point of view, as the main function of a bank. The first thing that a new bank of this kind does is to lend a portion of its capital to its customers, or to lend them its credit in return for theirs. Here is the process, as illustrated in a small American State bank.

A banker begins with $10,000 capital; this capital, combined with his own reputation, brings him in $50,000 of deposits. He finds that his depositors deposit approximately as much as they withdraw, so he is reasonably sure of having $60,000 cash on hand all the time. With this money he begins to discount commercial paper, and for a $1,000 note which has three months to run he sets down to the credit of the seller of the note $985. He finds that as a rule this money is not immediately called for, and that he can safely discount about $200,000 of commercial paper in the same way and on the same terms. Then his balance sheet will be:

Resources.		Liabilities.	
Cash	$ 60,000	Deposits	$247,000
Loans & Discounts	200,000	Capital	10,000
		Profit	3,000
	$260,000		$260,000

How Credit Is Created.

Now $50,000 of the banker's deposits is in actual cash, but the other $197,000 represents nothing but his credit, which he is loaning to his depositors—it is created by his good reputation and by his resources. His depositors, we

* These are so called because they operate under charters from the State, instead of from the National Government.

will suppose, never want to turn their deposits into cash faster than the notes which he discounts come to maturity and are converted into cash. So his debtors have in their business the use of $200,000 of the banker's credit, and pay him interest for the use of it, just as if it were actual money.

Suppose, however, rumors begin to get afloat that Mr. So-and-So's bank is not very secure. Depositors begin to come in for their money or to draw cheques to more than the ordinary amount. Then the small banker, if the commercial paper which he has bought is good, can re-discount it with some larger bank, and thus secure the cash to meet his obligations.* If he is unable to do this, he necessarily suspends payment, and is often forced into bankruptcy. The result is the loss of his capital and probably of some portion of the money due to his depositors.

Commercial and Savings Banks.

In most countries there exist two kinds of banks—commercial banks and savings banks. The chief difference between them is simply that commercial banks deal mainly with commercial people who are continually depositing or withdrawing large amounts. Accordingly, the commercial bank must keep as a reserve a large percentage of it liabilities, since it must be ready to pay off, at a moment's notice, any of its obligations. All its assets must be "liquid," easily realizable, and as a rule it does not make any investments which will tie up its assets for more than three months at a time, *e.g.*, sixty-day or ninety-day commercial paper. In case of a sudden stress, it should, unless the crisis is general, be able to re-discount this paper with another bank.

In savings banks, on the other hand, the deposits are usually repayable only after notice, and the amount of deposits likely to be paid out in a certain period is much

* The impossibility of an outsider deciding on the quality of the commercial paper held by a far distant branch of a great bank is given as one of the reasons why an external inspection of our banks would not work well in Canada.

less than in the case of a commercial bank. Also, since the deposits are usually smaller and more numerous than those of a commercial bank, it is more feasible to estimate what the withdrawals will probably be in a given space of time. For all these reasons, the reserve in a savings bank is usually a much smaller percentage of the deposits than the reserve in a commercial bank. Because of the comparative stability of its investments, the savings bank is able to invest its deposits under fewer restrictions than a commercial bank, and in many places may make money by all sorts of investments, while the commercial bank is strictly limited to commercial paper.

Interest on Deposits.

The savings bank, in addition to providing safe-keeping for money, offers interest in order to attract depositors. As a result of having so much larger a percentage of its assets invested, the savings bank is able to pay interest on deposits; the strictly commercial bank usually does not. Its attraction for the depositor is its convenience and its services to him in discounting his commercial paper.

In Canada, under our system of nation-wide banks, the savings and the commercial banks are inextricably fused. Practically all our chartered banks discharge both functions. Yet it is possible to see approximately how much of their deposits are savings deposits and how much are commercial deposits, by comparing the deposits payable after notice with the demand deposits. Some banks which do more city than country business will be found to have a larger proportion than the average of demand deposits; others which devote more attention to country business, a smaller. If one investigates the comparative amounts for the past decade, he will find that about two-thirds of our deposits are savings deposits and one-third commercial. Our Canadian arrangement is a happy one, in so far as it enables our banks to use their savings deposits in furthering the business of the country more actively than would be done by purely savings institutions.

In Canada the usual rate of interest paid by chartered banks on savings (or time) deposits is three per cent.; on commercial deposits no interest is usually paid though in some cases where specially large balances are kept, a low rate of interest is paid under a special arrangement.

Branch Banks.

An important feature of our banking system is the branch bank. Our banks are banks of branches, with their centres at some important city, operating for the most part over wide expanses of territory and, in the case of our larger banks, all over the Dominion. The advantages of this system to the business public as compared with the system of small individual banks existing in the United States, are manifold. Under our system money flows much more readily from one place to another than under theirs; thus the rate of interest varies as between East and West less with us than with them. Our affairs are in the hands of experts; we have the advantages over the Americans that large scale producers have over small scale producers. Our banks are able to place their money more wisely than are the American banks, because our banks have a nation-wide vision and a nation-wide *clientèle*, which the American banks have not. Also our banks are more easily able to collect money in one place where it is plentiful and invest it in another place where it is scarce than are the American banks. All this implies a great economic advantage; and has, no doubt, contributed largely to the rapidity of settlement in the Canadian North-west.

Clearing Houses.

We have said already that one of the great purposes of the bank is to make credit do the work of money, thus economizing the use of money through the use of its bank notes and deposits as media of exchange. Banks have within the past generation been rendered much more efficient economizers of money through the use of clearing-houses.

Up to about a generation ago, when the customer of a bank paid into his bank the note or the cheque of another, the messenger of that first bank went around daily and collected from the debtor banks the amounts of money due from them. They in turn sent their messengers to his bank and to each other to collect the amounts of money due to them on notes and cheques which had been deposited with hem. This was a very clumsy system, requiring a great deal of the messengers' time and much counting and recounting of money. Also it had in it a certain element of danger, as the messenger was commonly known to have much money on his person. This invited robbery. Finally it tied up a great deal of cash in making these daily settlements.

At last the plan was devised of having representatives of all the banks in a community meet daily at some convenient centre in the town, which was called a clearing-house.* Here they were to bring the notes and cheques on each other which they had received the previous day, all neatly tied up, with the total amount stated thereon. If there are ten banks doing business in a place the representative of each bank goes to the clearing-house with nine packages of notes and cheques on the other banks.

In an ordinary day's transactions it is found that some of the banks are debtors—the amount of paper which they hold on other banks is not so great as the amount which the other banks hold on them—and some are creditors——holding more paper (i.e., notes or cheques) on other banks than other banks hold on them. Debtor banks must, under the

* The Supreme Court of Pennsylvania defines a clearing-house as follows:—"It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other at one time and in one place each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and, under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balances, and so "clear" the transactions of the day for which the settlement is made.

rules of the Canadian Bankers' Association, settle their balances by twelve o'clock and creditor banks must receive the amounts due them by half-past twelve. Balances are paid with Dominion notes that are negotiable only between banks, by draft on Montreal, and sometimes by draft on New York. All the banks are most particular to pay their balances every day, as failure to do so would immediately be published and would necessarily result in a run on the bank and its probable failure.

Paper representing enormous business dealings passes annually through the clearing-houses; the amount of clearing-house transactions is regarded as perhaps the best index to the volume of business done in a community, as the records of a very large percentage of all business go through the clearing-houses. This is truer of the United States than of Canada, since with us a considerable share of the business is transacted within the different branches of a single bank, which in the United States is done with different banks. Mergers between our banks must also necessarily tend to reduce the amount of our bank clearings.

The fluctuations of the clearing-house returns are considered one of the best indications of the degree of prosperity of a country. Any depression causes them to fall, or at least to remain stationary; a period of prosperity leads to a rapid increase in the amount of bank-clearings.

The bank clearings of the Dominion have grown from \$979,000,000 in 1893 to \$7,195,000,000 in 1911, and \$9,143,000,000 in 1912. An increase of bank clearings has occurred in every year of the past decade, except in 1908, the year of depression, when the total was \$4,142,000,000 as against \$4,313,000,000 in 1907. Since 1908 the clearings have grown by leaps and bounds, and have more than doubled in four years—a marvellous advance that speaks volumes for the progress of our country and the energy of our people.

Economy of Money Effected.

How great a saving in the use of money has been effected by the establishment of the clearing house may be illustrated from the statistics of the New York clearing-house. In the year ending Sept. 1, 1907, over $95,300,000,-000 in cheques and drafts passed through the clearing-house, while the total money balances paid amounted to $3,800,-000,000, or only 4% of the business transacted. There is every reason to believe that with the increase in the number of people having bank accounts, the use of money in business transactions will continue to decline, and a larger and larger percentage of business will in all progressive communities be carried on by the use of credit instruments. "Money," it is said, "is only the small change of commerce.". Some economists have even had visions of a future society in which our money will have ceased to exist, and all obligations in a community will be discharged by a transfer of credits in some enormous book. In many small transactions, however, the expense attending the writing of cheques and the transferring of credits will always make the use of money a more economical method of discharging one's obligations.

N.B.—Students specially interested in the Canadian Banking System are advised to read Sir Edmund Walker's History of Banking in Canada, Mr. H. M. P. Eckhardt's Rational Banking System, and the three reports on the Canadian Banking System published by the National Monetary Commission of the United States. The latter may be procured from the Superintendent of Documents, Government Printing Office, Washington, for a postal money order or express order for eighty-five cents. These books, which should be in every banker's library, are as follows: The History of Banking in Canada, by R. M. Breckenridge; The Canadian Banking System, by J. French Johnson; Interviews on the Banking and Currency Systems of Canada.

ECONOMICS

EXAMINATION QUESTIONS

ECONOMICS.

LESSON 9.

1. What is "credit"? Why are credit prices higher than cash prices?

2. Explain how a failure of credit occurs and trace its consequences.

3. What is a bank? What are the functions of a bank?

4. How does a bank-note differ from other promissory notes? Explain how these differences make it a convenient substitute for money.

5. Point out how the bank derives a profit from note issue, and show the special importance of note issue to a young bank.

6. Just why does one accept a Canadian chartered bank note as freely as a Dominion note? What safeguards protect the Canadian note-holder?

7. Compare these with any analogous safeguards in other countries.

8. Why is the note-holder a preferred creditor as compared with the depositor?

9. Why does the Government allow the banks to issue notes, instead of making considerable profit for itself by replacing their notes with Dominion notes? (Of course it would have to alter the "Act respecting Dominion Notes" in order to do this.)

10. Show clearly how credit is created in the modern bank.

11. Distinguish the savings bank from the commercial bank. What classes of investment would each of them naturally prefer? Why do savings deposits draw interest, while commercial or demand deposits do not?

12. What are the advantages of the branch bank system as compared with the small banks of the United States? Have you anything to say on the other side?

13. Explain the functions of the clearing-house, and show how it economizes the use of money.