pag. I

Economics VI, Assignment 12 Due March 26.

I, 4. Exports of merchandise. Dealers in exchange will have foreign balances. These will tend to build up. If Americans do not import as much as they export dealers will be unable to sell enough bank drafts to keep their foreign balances constant. American banks may invest balances by purchasing stocks, bonds, or commercial paper in the foreign country or may have balance transfered to their own vaults by ordering a shipment of gold. Exchange rates therefore would tend to drop to the "gold

✓ importing point" the point where the drafts sell below the par of exchange not below the amount which would cover the expense of shipping the gold.

American tourists travelling abroad. If American business men are buying more from foreigners than they sell the demand buying for drafts will become so great that the foreign balances of our banks will not be sufficient. But will be unable to sell drafts unless they pay the cost of shipping the gold. Exchange will rise to the "gold exporting point." Competition among dealers will prevent it from going higher. Therefore tourists travelling abroad (American purchases

✓ of services from foreigners) tend to ~~lower~~ raise exchange rate

Sale of American securities abroad

✓ tend to to lower rate of exchange.

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Payment by the British government of a part of its debt to the United States tend to lower rate of exchange.
✓ Payment of interest on foreign bonds owned by Americans tend to lower rate of exchange.
✓ Payment by Americans to foreign ship countries tend to raise rate of exchange.

2. (1) pg. 620.
"Highly developed industrial nations cannot survive without an excess of merchandise exports over imports". If we do not maintain a favorable trade balance" that is if imports exceed exports entrepreneurs will be forced out of business. But if imports are exceeding exports the price levels must be favorable as a market for foreign goods and thus for our own producers or they would sell in a foreign market. Thus prices do not fall. It is feared excess of imports will displace home labor & capital & prevent their productive employment. But excess of imports over exports can never in the long run exceed the additional purchasing power which comes into ~~the~~ hands of this highly developed industrial country from payments of loans or payment of interest and dividends.
If a country ~~imports~~ exports more than its imports ~~exports~~ it is always either in the process of increasing investments abroad or it is a debtor country whose payments on interest exceed its new borrowing. If increasing investments exports will exceed imports

III

as much as the new loans exceed the interest on the old loans. Such a country itself supplies the purchasing power to buy these so called surplus products. Every nation's purchasing power is equal to its total production. Every nation ultimately buys its own product. Thus in reality we never sell any surplus to foreigners and "highly developed industrial nations cannot survive without an excess of merchandise exports over imports" is a false statement.

3. If whole-sale price level in Great Britain is 100 in Canada 500 the exchange rate according to the purchasing power theory I would expect ~~to be~~ that the ~~British paper~~ pound rate of sterling exchange would be approximately \$5.00. If the British prices fell to 80 and Canada to 360 I would expect the sterling exchange to be \$4.50.

The exchange rate may not always reflect this relationship but if exchange rates ~~will~~ are out of line trade currents are set in motion which tend to adjust the exchange rate of the two price levels. If the British rate is temporarily below the purchasing power parity Canadians can exchange dollars for pounds sterling which will buy much more than the dollars so exchanged. This will stimulate imports into Canada. Movements of goods from England to Canada will tend to raise prices there and lower them here. This will

IV

continue until the ~~two~~ price levels ~~are~~ of the two countries are equal. Also increase in imports will result in an increase in the demand for bank drafts on London with a consequent tendency on the part of pound sterling rates to rise. Thus the tendency is to return to the purchasing power parity.

4. (a) First ~~of~~ I would draw up a bill of exchange on a London bank designated by the importer. Then I would have this bill discounted at my bank. I would be credited on my account with the discounted value of the bill. My bank the Canadian bank the remits its bill to its London correspondent and is credited with the discounted value of the bill. The bill is then sent to the London bank designated by the miller for collection if a sight draft or for "acceptance" if it is a time draft. If a sight draft the miller's account is immediately debited to that amount. If a time draft the person (miller) on which it is drawn writes "accepted" across the face of the bill and signs his name. The bank presenting it for acceptance may hold it until it matures or sell it in the open bill market.

(b) If a Liverpool merchant importing wheat from Canada and made a purchase of wheat on the Winnipeg Grain Exchange I would instruct the Canadian exporter to draw the bill on a Canadian bank with which I would

V/

make an arrangement. I would supply the Canadian bank with the necessary funds to pay the bill when it falls due. When the Canadian exporter has drawn his bill on the Canadian bank designated, he sends it to this bank to have it "accepted". He can then sell it in the open bill market or discount it at ~~the~~ his bank, which in turn will either sell it in the open market or hold it until it matures.

5.

Credit		Debit	
Commodity & Service Items		Commodity and Service Items	
Export of merchandise	$200,000,000	Imports of Merchandise	$140,000,000.
Shipping services	150,000,000	Tourist exp. abroad	$180,000,000
		Emigrant remittances	$25,000,000
		Interest to foreign bondholders	$10,000,000
Gold & Currency Movements		Gold and Currency Movements	
Capital Movements		Capital Movements	
~~Purchase foreign bonds 50,000,000~~		Purchase foreign bonds	50,000,000

The balance of trade here is an unfavorable trade balance to the extent of $25,000,000 thus gold $25,000,000 will be ~~exported~~ imported to balance payments.

this is not the balance of trade, but rather the balance of all debits + credits except gold

VI

6. There is a much greater diversity of occupations in the Province of Ontario than the Province of Saskatchewan. Labor and capital will naturally flow into those occupations which will yield the highest returns. The population in Ont. is much greater than in Sask. consequently the marginal productivity of labor is lower. Thus there is a great difference in the distribution of gainfully employed persons even though the natural conditions might make such industries possible in Sask. In Sask. the marginal productivity of labor engaged in farming is high compared to other industries. In Ontario more industries are possible because the marginal productivity of labor is lower. Ontario has advantage of Sask in production of certain commodities because of natural resources and nearness to markets (both home and abroad.)

✓

7.

Exports	$	Imports	$
Newsprint	120,007,550	machinery except farm	48,367,372
Wheat	116,273,709	crude petroleum	46,634,720
Gold Bullion	86,203,736	rolling mill products	42,895,952
Nickel	61,918,600	coal	38,907,709
Copper ore	45,674,426	Auto parts	29,725,252
Planks & Boards	43,662,709	Fruits	24,887,067
Meats	41,362,775	Sugar and products	20,663,829
Wood-pulp	39,960,178	Grain & grain products	19,634,814
Fish	26,283,313	Farm implements	19,245,768
Automobiles	25,299,363	Rubber & products	18,445,268
	606,646359		309,407751

VII

Exports are the greater by $297,238,608

Exports are ~~69.6~~ ~~69.7 %~~ 66.3

Imports ~~30.3 %~~ 33.7

Exports have greater percentage.

Imports are more diversified with regard to items under them but the exports exceed the imports.

Canada would not have such a great diversification because it has totally a temperate climate and products peculiar only to warmer climates must be imported. The population is small and the marginal productivity of labor is high. Therefore diversification cannot be entered into a very large extent. Canada is a debtor country whose payments on interest to foreign capital are greater than our new borrowings. We pay out money here in excess to buy back our exports to the amount they exceed our imports.

13. purchase of for. sec. gives rise to a demand for foreign exchange - & sale to a supply of it.

14. if for. ~~ext~~ govs purchase Can. bonds they must pay & this creates a supply of for. exch.

Hazen R. Argue

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Assignment 12

Due March 26.

Please explain 13 & 14 of B(iii)

(see over)

Fairly good

MAR 26 1940