

## CHAPTER XX.—PRICES.<sup>1</sup>

Commodity prices naturally fall into two main divisions—wholesale prices and retail prices. Because the number of wholesale traders is smaller than that of retail traders, buying and selling by carefully defined grades more prevalent, and price ranges at any particular time and place much narrower, it would appear that wholesale prices and their fluctuations are more easily and accurately ascertainable than retail prices. But this advantage is largely offset by certain difficulties inherent in the nature of index numbers of wholesale prices. The making of an index number of wholesale prices for general purposes requires the inclusion of a much wider range of commodities than is necessary for a retail or cost of living index. Moreover, wholesale commodities are in all stages from raw material to finished product, while retail prices are concerned only with the latter. At each stage in the evolution of a commodity we are frequently confronted with several grades, and this situation is complicated by the fact that grades undergo changes in the course of time. Hence, to secure from month to month and year to year quotations which give accurate continuity is a task in which eternal vigilance is the price of success. The maker of wholesale index numbers must be assiduous in acquiring and keeping up to date a knowledge of grades and qualities, and in dealing with a very large list of commodities this is a difficult task. With retail prices, the question of grades is not quite so involved and in some cases it is sufficient to obtain quotations on the basis of "the kind principally sold".

Wholesale transactions are generally between expert buyers and sellers, dealing on purely business principles. Accordingly, wholesale prices conform approximately to the operation of the principle of supply and demand, and are thus more valuable as an index to the current state of business. Retail prices, on the other hand, are governed to some extent by custom and do not respond easily to fluctuations in wholesale prices. Indeed, small fluctuations in wholesale prices are not fairly reflected in retail prices because of the limitations of the currency in representing small quantities of commodities. Retail prices vary considerably for the same commodity in different parts of the same city, owing to differences in the service rendered, in location of stores and in classes of customers.

Further, since wholesale prices are determined by the business situation of the moment while retail prices change more slowly, there exists what is technically called a "lag" between the two, retail prices not showing changes in fundamental business conditions until some time after wholesale prices. Thus, while wholesale prices in Canada reached the peak in May, 1920 and commenced to decline in June, retail prices reached the peak in July, 1920, and began to decline in August.

Retail prices find one of their chief uses in the measurement of changes in the cost of living. This measurement is complicated by such changing factors as consumption, habits and standards of living, and qualitative changes in com-

<sup>1</sup> Revised by Herbert Marshall, B.A., F.S.S., Chief, Internal Trade Branch, Dominion Bureau of Statistics. This Branch compiles and publishes statistics on: Prices (wholesale, retail, securities, services, interest rates, cost of living), Retail and Wholesale Trade, Foreign Capital Investment in Canada and Canadian Investment Abroad, Balance of International Payments and other related activities. For a complete list of the publications of this Branch the reader is referred to Chapter XXVIII, Section I, under "Internal Trade".