treasury bills and commercial bills is undeveloped, a central bank must do what it can to develop such a market so that it may be sure of being able freely to buy and sell the kind of assets it is allowed to hold in the volume requisite for control. Control can also be assisted by buying and selling gold and foreign exchange. In the case of Canada, operations in foreign exchange are limited by the Bank of Canada Act, and of course all central banks have to take into consideration the stability of any currencies they may be permitted to hold.

Though their action is more indirect, changes in the bank rate have a similar effect, especially where there is a well-developed market sensitive to such changes and where it is the custom of the commercial banks to alter their rates when the central bank alters its own. High rates tend to contract business enterprise and low rates tend toward expansion. But, if a country is on the gold standard, high rates tend to attract gold and low rates to encourage its outflow, thus providing some limitations on contraction and expansion, and normally causing the requisite adjustment to take place more automatically.

Expansion and Contraction of Credit.—As pointed out, the deposits of the commercial banks should vary more or less in accordance with the Bank of Canada's operations, the variations being about ten times as great as the variations in the cash basis.

A central bank creates *cash* when it increases its assets and therefore also the bankers' balances which it holds. The commercial banks create *credit*. They cause deposit liabilities to come into existence by making advances and buying securities, etc. Of course none of the "creations" mentioned takes place without co-operation. Co-operation in the case of advances is clearly seen to be necessary. Again it may be easy to buy and sell bills and securities, but even so there must be two parties to the transaction. In any case, of course, the central bank cannot control the *direction* in which new credit is extended any more than it controls the choice of assets to be liquidated when contraction takes place. That function is in the hands of the commercial banks and other financial institutions, although the central bank may conceivably be able to *influence* such use indirectly. Still less can it control the use made of credit by the public. Once undesirable use of credit is made to any important extent, in excessive speculation for instance, the central bank may be able to exercise control only by contraction, which might affect other and more legitimate uses of credit as well. Again, a central bank may create additional cash and the commercial banks may follow the lead given them and expand deposit liabilities by an amount ten times as great, but additional purchases and sales of goods or services may not follow. The money may not be spent by the owners of the deposits. Of course, if additional advances are made, one can be sure that the borrower will use the money, but for a long time expansion may not take that form during a depression. When it does, it may be a sign that the depression is nearly over. If securities are bought, the seller may keep his money unspent until some favourable opportunity occurs for its investment, or its expenditure in some other way. At the bottom of a major business depression, the prevailing lack of confidence may make any expansion undertaken by a central bank slow in bringing about a revival by increased spending. Moreover, an excessive creation of cash with a view to hastening recovery may lead to the central bank losing control if and when such action begins to take its effect. The turnover of deposits may then become too rapid. For it is the rapidity of movement of deposits (and notes)—the "velocity of circulation"—which is the important factor—the National Income, not the amount of money in existence. This velocity, unless an inflationary expansion has taken place, is much more responsive to control