average level centres on March 1976; and in October 1977 the range was again lowered to 7% — 11% measured from the average level for the month of June 1977.

Steadiness in monetary growth tends to stabilize total spending in the economy. When the trend growth in national expenditure exceeds that of money holdings, for any appreciable period, interest rates tend to rise. Consequently, firms and individuals are induced to moderate their spending. On the other hand, if expenditure is sluggish compared to the growth of money supply, there is an incentive for business and consumer spending to expand.

The emphasis on the rate of growth of the narrowly defined money supply does not mean that other indicators are being ignored by the Bank of Canada. Indeed, many other factors provide useful information on the behaviour of the economy — among them are the movements in various economic series and monetary and credit totals.

The Bank of Canada leaves the allocation of bank and other forms of credit to the private sector of the economy. Each chartered bank is free to attempt to gain as large a share as possible of the total cash reserves available by competing for deposits and to decide what proportion of its funds to invest in particular kinds of securities and in loans to particular types of borrowers. The influence of the central bank — based in essence on its power to expand or contract chartered bank cash reserves as described above — operates through financial markets affecting relative rates of return on various assets in the economy. In this impersonal and indirect fashion monetary policy has its effect on total spending in the economy.

The Bank of Canada may buy or sell securities issued or guaranteed by Canada or any province, short-term securities issued by Britain, treasury bills or other obligations of the United States and certain types of short-term commercial paper. It may buy or sell gold, silver, nickel and bronze coin, or any other coin, and gold and silver bullion as well as foreign exchange and may accept non-interest-bearing deposits from the federal government, the government of any province, any chartered bank and any bank regulated by the Quebec Savings Bank Act. The Bank of Canada may open accounts in other central banks; accept deposits from other central banks, the International Monetary Fund, the International Bank for Reconstruction and Development, and any other official international financial organization; and pay interest on such deposits. The Bank of Canada does not accept deposits from individuals nor does it compete with the chartered banks in the commercial banking field. It acts as the fiscal agent for the federal government in payment of interest and principal and generally in respect of management of the public debt of Canada. The sole right to issue paper money for circulation is vested in the bank.

The central bank also may require the chartered banks to maintain, in addition to the legal minimum cash reserve requirement, a secondary reserve which the Bank of Canada may vary within certain limits. The secondary reserve, consisting of cash reserves in excess of the minimum requirement, treasury bills and day-to-day loans to investment dealers, cannot exceed 12%; effective February 1977, the required level was 5%. In the event the Bank of Canada wishes to introduce or increase the secondary reserve requirement, one month's notice to the chartered banks is required; the amount of any increase in the requirement cannot exceed 1.0% a month. In the case of a lowering of the secondary reserve requirement, however, the percentage change in any one month is not restricted.

The Bank of Canada may make loans or advances for periods not exceeding six months to chartered banks, or to banks to which the Quebec Savings Bank Act applies, on the pledge of certain classes of securities. Loans or advances may be made under certain conditions and for limited periods to the federal government or to any province. The bank must make public at all times the minimum rate at which it is prepared to make loans or advances; this rate is known as the bank rate. From November 1, 1956 until June 24, 1962, the bank rate was established weekly at a fixed margin of one-quarter of 1.0% above the latest weekly average tender rate for 91-day treasury bills. Bank rates since October 12, 1962 have been fixed from time to time and are given in Table 19.1. The rate at May 9, 1977 was 7.50% per annum.

On May 12, 1974 the Bank of Canada announced a change in practice concerning the maximum rate at which it would enter into purchase and sale agreements with