

state which have been fairly heavily weighted. Whether or not this constitutes it a superior one to the others, or perhaps an inferior one, need not now occupy our attention.

THE PRICES OF RAW MATERIALS AND FINISHED PRODUCTS

What we have been saying of the inclusion of numbers of raw materials in a primary state leads to a consideration of the movements of prices of raw and finished products which is of interest and undoubtedly of value in any study of the significance of price movements in the business structure.

It is a well established fact that the prices of raw materials rise and fall quicker in the course of the business cycle than do those of finished products. The reasons for this may be briefly stated as follows: first, manufactured products are priced with reference to the raw materials of which they are made; second, when there is a rise in the prices of manufactured articles, manufacturers, to protect themselves, buy largely of raw materials, thus creating a demand for raw materials at the moment and so raising their prices; third, costs of capital or labour do not increase so quickly as the costs of raw materials, and, therefore, although a manufacturer of finished products may find that his raw materials have increased in cost he will not be compelled to advance his prices so quickly or so violently as the producer of the raw materials. The prices of raw materials, therefore, rise faster and higher than those of manufactured goods. Looking now at the other side of the picture, manufactured goods decline more slowly and less drastically in price than do raw materials. When prices begin to decline many manufacturers have stocks of their products on hand which they can dispose of without being compelled to buy further quantities of raw materials, and when they do buy, they will buy as far as possible "from hand to mouth." The demand for raw materials, therefore, declines quicker and more drastically than the demand for finished products.

NOTE: A most valuable exposition of the above points will be found on pages 62 and 63 of "Economics of Business Cycles," by A. B. Adams, published by the McGraw Hill Book Company. The whole book is to be highly recommended.

WHOLESALE PRICES AND RETAIL PRICES

A fact that is sometimes overlooked even by business men of long experience is that wholesale prices are far more sensitive than retail prices, they rise and fall quicker. A careful