

in bank deposits and reserves, and this has already been noticed for Australia. Consequent upon this there will follow a rise in prices which will shift some part of the demand for home-trade goods to foreign-trade goods, since the changing price-level will first make home-trade goods dearer. A certain amount of substitution will also take place, and will tend to

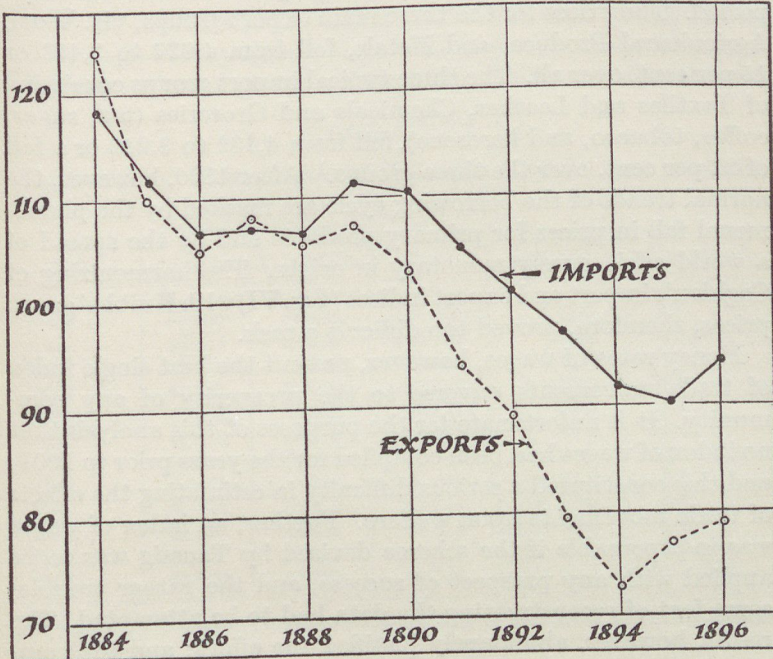


FIG. VI. PRICE-LEVELS OF IMPORTS AND EXPORTS
(After Coghlan.)

reinforce this effect. Increased purchasing power in Australia will result in intensifying the demand for goods which enter into both home and foreign trade; and on this account also imports will increase and exports diminish. The rising cost of domestic production would tend to lessen the comparative advantage possessed by Australia for the production of commodities for overseas trade, since labour would tend to be less effective by being diverted to the constructional works for which the capital was borrowed. Some commodities will even disappear from the export trade altogether, and may even tend to be imported.