sumption purchases.[21]

With regard to bank lending, open market purchases of Government securities increase bank reserves and may ease the terms on which banks are willing to make loans. Changes in lending terms other than interest rates, which include repayment procedures, compensating balance requirements, and the maximum amount a bank is willing to lend to a borrower of given credit standing, are often bracketed as changes in "credit availability". Such changes are regarded by many analysts as being more important influences on many types of spending than are changes in interest rates. Moreover, changes in credit availability related in part to changes in the money supply are not confined to lending by commercial banks, as was dramatically illustrated in 1966 with regard to nonbank mortgage lenders. In any case, an increased availability of funds permits and encourages potential borrowers to increase their loan liabilities, thereby providing funds which can be used to build up financial assets (perhaps mainly money market instruments) or to purchase physical assets in the form of business capital goods, inventories, or consumer durables. Stepped-up purchases of financial assets add to downward pressures on interest rates, stimulating spending through the processes already described, while additional demand for physical assets stimulates business activity directly.

Studies of the influence of changes in interest rates and the availability of credit on spending in the various sectors of the economy have appeared with increasing frequency in the post-World War II period, especially within the past few years. Some of these studies have taken the form

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[21] While there is little general agreement that such direct effects on consumption are important, a recent study of the problem has in fact found a significant influence of interest rates on consumer demand for automobiles and other durables. (See Michael J. Hamburger, "Interest Rates and the Demand for Consumer Durable Goods", *American Economic Review,* December 1967.) In general, proponents of the monetary school feel that analyses of the role of interest rates in consumer demand undertaken to date have neglected to take into account certain important factors. In particular, they think that the most relevant interest rates may not be the ones usually studied, namely the rates on financial instruments, but rather the interest rates "implicit" in the prices of the durable goods themselves—i.e., where the value of the services yielded by a consumer durable, such as an auto or a washing machine, is treated as analogous to the coupon or dividend yielded by a bond or stock. The obvious difficulties of defining and measuring the value of such services have probably been responsible for the notable dearth of research into this possibility, however, and the issue must be regarded as completely unsettled.