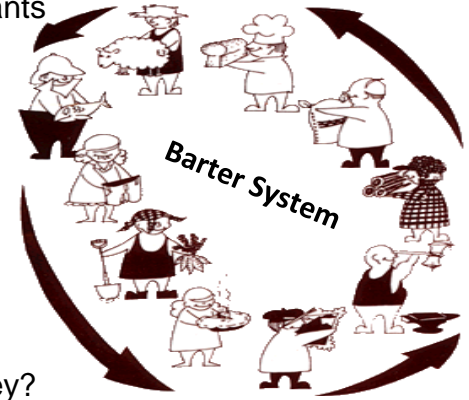


# A STORY OF BARTER

Money, today, is a very important part of our lives. The goods and services required to satisfy our needs can be obtained only with the help of money. A person who has money can easily exchange it for any commodity or service that he wants. Jane Doe has money with her & she wants to buy a chocolate. She goes to the shop, gives the shopkeeper money and gets the chocolate. The chocolate seller needs to buy bread for his family. He uses the money he earned from the sale of chocolates to buy the bread. The baker needs to buy vegetables and uses the money earned by the sale of bread for it, and so on. Money facilitates the process of exchange, it acts as the medium of exchange. Before the trade and commerce was accomplished through the barter system, the trading of one type of goods for another.



Can we imagine what the situation would be like if there was no money? How would we get the things we need? The only option would be to exchange goods for goods. This was the system which was followed in the ancient times (when there was no money) and was called the **Barter system** of exchange. A long time ago there were no coins. There was no such thing as money. Before the invention of money people had to get their food, clothing & other needs by trading things. There is a special name for this kind of trading called "Barter". It comes from a French word, barter, which means "to trade." When you swap baseball cards with a friend or trade your chocolate pudding for a cookie at lunch, you are bartering because you are exchanging something you have for something you want.

People traded some of the things they didn't need for things they wanted or needed. Even then people had different jobs and skills. Some people were good hunters, some were better farmers than others, some people made beautiful clay pots, and some were skilled carpenters, and so on. There were many different ways in which these people bartered, or traded, for things they needed. The good hunter might trade 10 rabbits to the carpenter for the carpenter's promise to fix his roof. The farmer might trade a fat pig to the potter for pots to cook in. A goat might be traded for some tools.

Most of the time, bartering was a good way of getting things. But sometimes there were problems. What happened when you had something to trade but nobody wanted it? What happened when the traders couldn't agree on what was a fair trade? People had to agree as to how many eggs would equal a sack of grain or how many fish were enough to trade for a pot. **Three major problems** are associated with the barter system. **First**, the biggest problem in barter exchange is that both the trading partners would need to have what the others want and both parties have to agree to buy and sell each other's commodities. This is known as double coincidence of wants. **Second**, the purchase and sale transactions cannot be separated, but must be simultaneous. The sale or purchase of goods cannot be deferred. The **third** major problem relates to perishable goods. If the owner of perishable goods cannot trade those goods immediately, they soon lose their value.

To overcome all these problems people began to use certain objects as a medium of exchange, i.e., money. Both livestock, particularly cattle, and plant products such as grain, come to be used as money in many different societies at different periods. Cattle are probably the oldest of all forms of money, as domestication of animals tended to precede the cultivation of crops, and were still used for that purpose in parts of Africa in the middle of the 20th century. But not an ideal form of money, because people need things that would last a long time, still be valuable, and could be carried around. At about 1200 B.C. in China, cowry shells became the first medium of exchange, or money. In addition, tools made of metal, like knives and spades, were also used in China as money. From these models, we developed today's round coins that we use daily. The Chinese coins were usually made out of base metals which had holes in them so that you could put the coins together to make a chain. The first coins were known as cowry money - minted in China. Today, modern money includes not only coins, paper money but also plastic money(credit cards) which is widely used especially for transactions done on the internet.

**Directions:** Answer all the questions completely.

- 1) What is the Barter System?
- 2) What does the French word “Barter” mean?
- 3) When a bartering transaction is made with no money, how is this possible?
- 4) Explain the 3 major problems with the Barter System.
- 5) How did we overcome the Barter System problems?
- 6) Why is using crops or animals as money not a good thing?
- 7) What problems with the Barter System is being shown in the carton below?

