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The Barter System

A WORLD WITH NO MONEY

A long time ago, there was no such thing as money. People lived in small towns or settlements, and had simple needs. Most people were farmers. They worked the land and planted grains, vegetables, and fruits. They also raised animals for meat, and milk. Clothing was made from animal skins, wool of sheep, or from linen which comes from a plant called flax.



Some people learned skills and became **craftspeople**. They made and designed things with their hands. Potters made pots and jars for storing and cooking food. Weavers made fine cloth. Carpenters made furniture, and blacksmiths made tools.

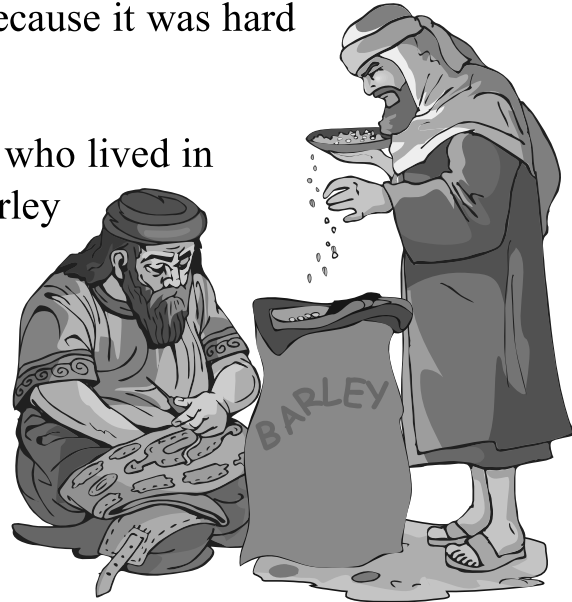


Farmers and craftspeople could not use themselves everything they grew or made. They also needed materials and goods they could not make on their own. So people learned to **trade** with one another. A farmer might trade some of his animals or grains for fish caught by a fisherman. A carpenter might repair a door in exchange for some tools made by a blacksmith, or for pottery made by a potter. This kind of trading is called **barter**, where one person trades his own goods or services for the goods or services of another person.



When people began to use a medium of exchange, they wanted that the medium should have some value in itself, so more people would come to trust it. In some parts of the world, salt was used as a medium of exchange. Salt was valuable to people because they needed it to preserve and flavor food. It was also valuable because it was hard to find.

The Sumerians – an ancient people who lived in what is now the Middle East – used barley as a medium of exchange. Workers received barley in payment for their **labor**, or work. The barley could then be used to buy goods. Other items that have been used as a medium of exchange are shells, feathers, dried fish, seeds, and even cows.



THE BENEFITS OF USING A MEDIUM OF EXCHANGE

With a medium of exchange, every product had a set value, based on the medium of exchange that was used by everybody. Now, each time a trader wanted to trade some of his products, he no longer had to find another trader who was in need of any of the products he had to offer. Instead, he would *sell* his product outright, and receive in return something – the medium of exchange – that he could use later on to *buy* what he needed.

For example, if the people of a city agreed to use seashells as their medium of exchange, then the value of everything was measured in seashells, and everything that was bought was paid for in shells. That way, a potter could sell a pot for which he would receive shells. He could then go to a farmer, and buy some fruits and vegetables with some of the shells he received, and the farmer could then go to the hatmaker and buy himself a hat with some of the shells he received from the potter. A person could also decide to save, or put away for later use, some of the shells he got for his products.

Exercise

Circle the correct answer under each question.

1. When one person trades his own goods with that of another person's, without using any money, it is called?

- a.* market
- b.* barter
- c.* value
- d.* buying

2. Anything that a group of people agree to accept it as payment for goods or labor is called?

- a.* a fair trade
- b.* services
- c.* barley
- d.* a medium of exchange

3. A person that makes or designs things with his/her hands is called a?

- a.* craftsperson
- b.* trader
- c.* merchant
- d.* farmer

4. The place where people would meet to trade with one another was called?

- a.* a pack animal
 - b.* medium of exchange
 - c.* a marketplace
 - d.* a settlement
-

THE FIRST PAPER MONEY

By the time of the Middle Ages in Europe (between the years 500 - 1400), gold had become a popular medium for trade. But having a lot of gold coins also created some problems. There were no savings banks where people could keep their money safe, so people often carried all their money around with them, especially when they were traveling for business. However, roads were not safe in those days, and robbers would sometimes attack merchants and steal their money. It was too dangerous to carry large amounts of gold or silver.



Toward the end of the Middle Ages, the adventurer Marco Polo traveled to China. When he returned to Italy in the year 1295, he brought news of a very interesting Chinese invention – money made of paper!

The Chinese have been using **paper money** for hundreds of years before news of it reached Europe. The Chinese had invented both paper and the printing process. They used these inventions to create money printed on paper.



The Chinese government was strong, and could guarantee the paper money's worth. As a result, people came to trust the new paper money. But Europeans were not yet ready to begin using paper money. Europe in the Middle Ages was made up of many small kingdoms that were constantly at war with one another. People did not have much confidence in their governments. The people felt safer using gold and silver coins, because gold and silver would always have value even if governments changed. Hundreds of years would pass before the people of Europe would begin to use paper money.

Exercise

Make a checkmark ✓ in the box next to the correct statement.

1. a. ☐ People liked to use barley and salt as money because they do not get easily damaged.
b. ☐ People liked to use precious metals as money because they do not get easily damaged.
2. a. ☐ Precious metals were easier to carry around than other mediums.
b. ☐ Precious metals were more difficult to carry around than other mediums.
3. a. ☐ The value of a gold or silver bar was in its weight.
b. ☐ The value of a gold or silver bar was in its shape.
4. a. ☐ Russia was the first country to use gold coins.
b. ☐ Lydia was the first country to use gold coins.
5. a. ☐ Most countries use the same currency.
b. ☐ Countries have different currencies from one another.
6. a. ☐ In the Middle Ages, most people kept their money in the bank.
b. ☐ In the Middle Ages, most people carried around their money.
7. a. ☐ The Italians invented paper and the printing process.
b. ☐ The Chinese invented paper and the printing process.
8. a. ☐ The Chinese were the first to use paper money.
b. ☐ The Europeans were the first to use paper money.

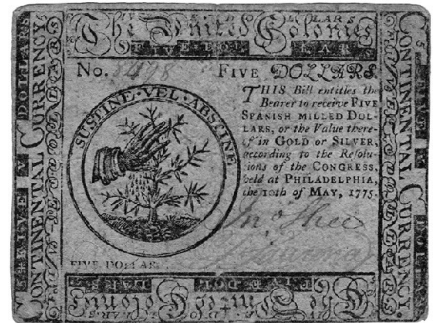
EARLY UNITED STATES MONEY

By the time the colonies declared their independence from England on July 4, 1776, a war called the American Revolution had already begun. The war lasted till 1783. During the war, the new nation needed money to pay its soldiers. So the Continental Congress decided to print paper money, called

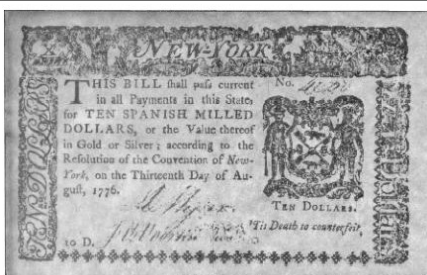
“continentals.” When the government started running out of money, it printed more money. But when you print too much money its value goes down. Before long, Americans began to describe any useless thing as “not worth a continental.”



The signing of the Declaration of Independence on July 4, 1776

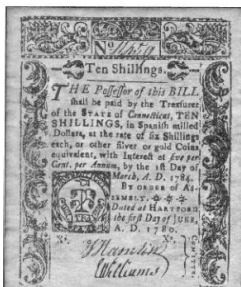


A "Continental"



New York money from the time of the Revolutionary War

Connecticut money from the time of the Revolutionary War



As Continental dollars became worthless, all the 13 colonies printed their own paper money. When the war ended, there were 13 different state currencies as well as foreign currencies in circulation. This became very difficult and confusing. How much was a New York dollar worth? Was a Virginia dollar worth as much as a Maryland dollar? Most states refused to accept the money of other states. As a result, trade between states became difficult.

Money in Daily Life

EARNING MONEY

Today, ideas about money are pretty much the same all over the world. People must have money to survive. They need money to buy food and clothing, and pay for a place to live. People also need money to pay for the things that make their lives comfortable.

People spend money all the time. So they constantly need to earn new money. Money that people earn on a job or receive from someone else is called **income**. There are many different kinds of income. Most people earn income by working for it at a job. They get paid wages, for the work they do. People also earn income by investing their money, or depositing it in a bank.

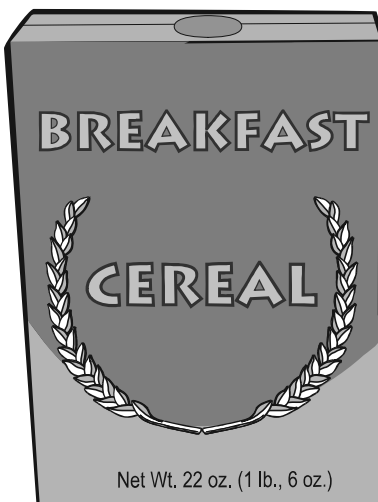
People do many kinds of work. Some run their own businesses. But many people work for a company, or the government. A person who works for someone else is called an **employee**. The person or company that an employee works for, is an **employer**. An employer usually pays a **salary**, or a fixed sum of money, to its employees on a regular basis, such as every week.



BUYING THINGS WITH MONEY

People earn money so they could buy things they need, or want. A **need** is something that a person needs in order to live, such as food and clothing. A **want** is something that a person can usually live without, but still wants it to better his or her life. Purchasing a new stereo system, or a gold wristwatch is a want.

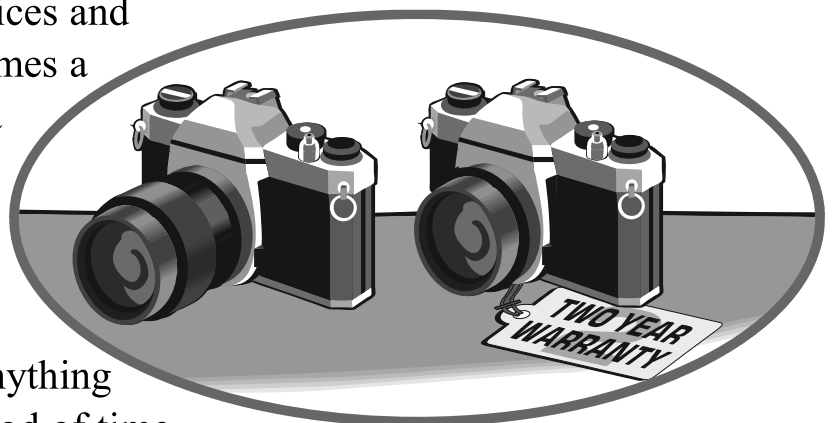
People have different ideas about needs and wants. What's important to one person may not be as important to another. To one family, having a car may be a necessity. To another it may be viewed as a luxury. It's important that people know the difference between things that are really important and things that are not so important.



Which one of the two cereal boxes is a better value?

A person who buys things or services is called a **consumer** – someone who uses or consumes goods and services. A smart consumer is someone who spends his or her money wisely. Smart consumers do not buy products simply based on how nice the packaging of the product is, or how famous the brand name is.

Smart consumers compare prices and quality before they shop. Sometimes a product that costs more may be a better deal if it is made to last longer or comes with a better warranty. A warranty guarantees that the company that made the product will fix or replace it if anything goes wrong, within a certain period of time.



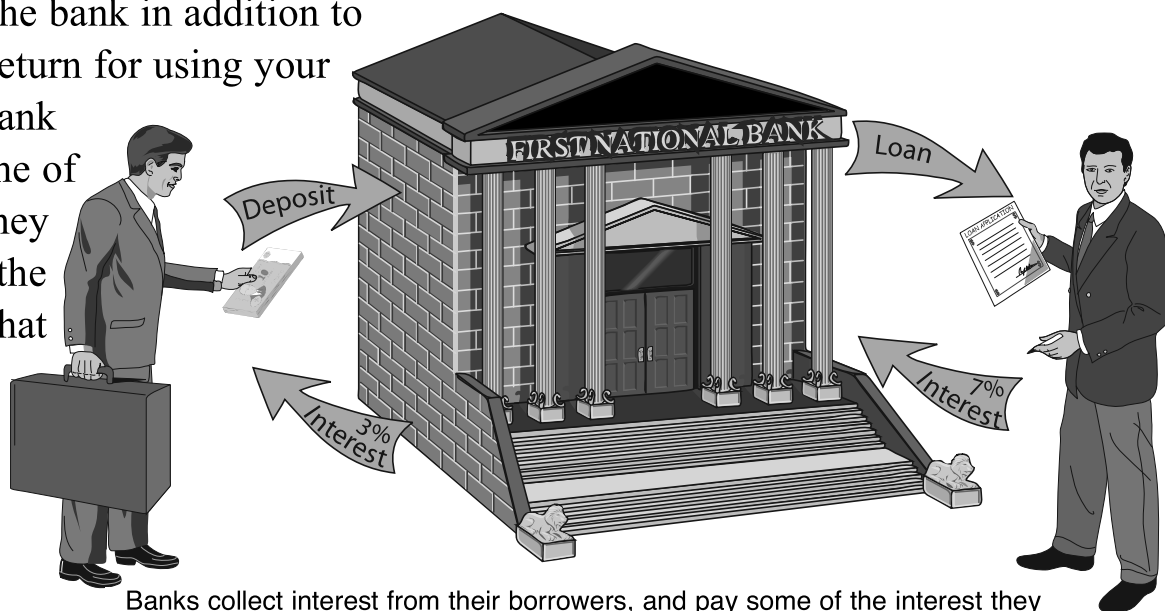
SAVINGS ACCOUNTS

Many people put away some money they earn for savings. They usually plan to use this money for little emergencies, or to buy something expensive in the future. They might also save money for retirement when they will no longer have a source of income.

People can hide their saved money under their mattress. However, that is not too wise. It can easily get lost or damaged. But most importantly, the money under the mattress does nothing. It just lies there. However, keeping money in the bank pays **interest**, which means earning more money. That is the reason why many people open a savings account.

Savings accounts are designed to keep your money safe, while earning you some interest at the same time. Some banks require a minimum deposit to open a savings account. This is because it costs the bank money to hire the people to manage all the accounts.

When you **deposit** your money in a bank, you are letting the bank use it. The bank combines your money with other depositors' money to make loans to people who want to borrow money. The borrower has to pay interest to the bank. Interest is some extra money that the borrower has to pay back to the bank in addition to the loan. In return for using your money, the bank pays you some of the interest they collect from the borrowers. That way, both you and the bank can earn money.



Banks collect interest from their borrowers, and pay some of the interest they collect to their depositors