

Subject! Economics

Teacher! Lokesh Arora

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Ch- 6 :- Money and Functions of Money

Good Morning Students,

Today we will discuss Chapter number 6, Money and Functions of Money of your book economics.

All of you please listen carefully.

First of all, do you know children what was happening before the evolution of money. How a man was fulfilling his demands.

A man cannot produce all that things which he requires. Therefore, he needs to exchange his goods and services with goods and services of others. The simplest possible method of exchange is exchange of one commodity for another. This system of exchange is termed as 'Barter System of Exchange'. For example wheat is exchanged for cloth, sugar is exchanged for milk etc.

The economy ^{which is} based upon this barter system of exchange is known as 'Barter Economy' or the 'Cac economy' i.e. the commodity for commodity economy.

This system of exchange was in existence in the earlier stages of human life. But due to various difficulties involved in this system,

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This system does not exist now a days.

Children, now we will discuss the Difficulties of Barter System.

(1) Lack of Double Coincidence of Wants!-

Double coincidence of wants means the simultaneous fulfilment of mutual wants by buyers and sellers. It is necessary for a person who wishes to trade his goods or services to find a person who is not only willing to buy his goods or services but also possesses that "good" which the buyer wants.

For example, Suppose a person possesses rice and wants to exchange it for sugar, he has to ^{first} find out a person who not only has sugar but also wants ~~to~~ rice. But, such a double coincidence is a rare possibility.

(2) Lack of Common Measure of Value!-

Even if two persons who want each other's goods meet by coincidence, the problem arises as to the proportion in which the two goods should be exchanged. i.e. what quantity of one commodity will be exchanged for what quantity of another commodity. For example, the problem arise to how much of wheat will be

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exchanged for 1kg of sugar.

If there are 1000 goods and services in the market, then the value of each would have to be expressed in terms of 999 others.

(3) Lack of Divisibility:-

Another difficulty of barter system relates to the fact that all goods cannot be divided and subdivided. In the absence of a common medium of exchange, a problem arises when a big indivisible commodity is to be exchanged for a smaller commodity.

For example, If the price of a horse is equal to five sheep, then a person having one sheep cannot exchange it for the horse because it is not possible to divide the horse into small pieces.

(4) Problem of Storing Wealth.

Under barter system, it is difficult to store value. In the absence of money, the individuals have to store wealth in the form of goods like wheat, rice, horses, cows etc. The value of stored commodities may change in the due course of time. These goods may perish after some time. Secondly,

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it is very expensive to store specific goods for a long time.

(5) Lack of Standard of Deferred (Future) payment:-

Another drawback of barter system is that credit transactions requiring future payments cannot take place smoothly under barter system.

For example, if a person borrows a cow for a year or two, he cannot return the same because by that time, it would have become old. It may also die.

Students before going further in the chapter, let me ask you a few questions. You may pause the audio for few minutes to write down the answers in the note book.

- Qn 1. What is barter system of exchange?
Qn 2. What is double coincidence of wants.

Children now we will discuss about different stages in the evolution of money.

Evolution of Money!-

Money is the most important invention of modern times. The evolution of money has passed through various stages in accordance with time, place and

circumstances. Economists have identified five such stages in the evolution of money. These are! -

(1) Animal Money!

During the earliest period of human civilisation domestic animals were used as money. Different goods were valued in terms of cattle that one could exchange. For example cows, horses, Sheeps, goats etc.

(2) Commodity Money!

Later on, money took the form of commodity money such as bows, arrows, shells, animal skins, precious stones, rice, tea etc. were used as money. The selection of commodity to serve as money depended upon several factors, like the location of the commodity, climate of that region, cultural and economic development of the society etc.

For example, people living by the seashore chose shells or dried-fish as money and in the cold regions like Alaska and Siberia, people adopted animal skins and furs as money.

(3) Metallic Money:-

With the passage of time, it was realised the goods cannot be stored for a longer period. Commodity money therefore, changed into metallic money. Metals like gold, silver, copper etc. were used as money.

(4) Paper Money:-

It was found inconvenient as well as dangerous to carry gold and silver coins from place to place. More importantly, world's production of gold and silver was not enough to match the requirements of trade and industry. Therefore, paper money came into existence. Paper money is regulated and controlled by the Central Bank of the country (Reserve Bank of India in India).

(5) Bank Money:-

As the volume of transactions increased, paper money started becoming inconvenient because of the time involved in the counting and space required for its safe-keeping. This led to the introduction of bank money (credit money). Bank money implies demand deposits with banks which are withdrawable through cheques, draft etc. Cheques are widely accepted these days particularly for large business transactions. ⑥

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For example, while purchasing a car or a house, bank money in terms of cheques and bank draft is used.

Debit Card and Credit Cards known as plastic money also fall under this category.

Students I am ending the topic here. I will give you some questions. All the students are required to answer these questions in their notebooks.

Answer the following questions:-

1. Explain various stages in the evolution of money.
2. Explain various difficulties of barter system of exchange.

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