

1. Barter System

- In early civilization, people lived in a “one-man economy.” Each person produced what he needed, so no exchange was required.
 - Later, with specialization (different occupations), people started trading directly.
 - Barter = exchanging goods for goods. Example: rice exchanged for shoes.
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2. Difficulties of Barter System

1. Lack of Double Coincidence of Wants

- ☒ Both traders must want exactly what the other offers. Very hard to match.

2. Difficulty in Measurement of Value

- ☒ No common unit to decide how much one good was worth compared to another.

3. Difficulty in Storing Wealth

- ☒ Goods like wheat, corn, or cattle spoil and cannot be stored for the future.

4. Difficulty in Dividing Goods

- ☒ Some goods cannot be divided without losing value (e.g., splitting a cow).

5. Exchange of Services Complicated

- ☒ Hard to decide payment for services like teaching or barbering.
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3. Money

- Money = anything accepted by society as a **medium of exchange**.
- It must be commonly accepted for goods, services, and debts.
- First recognized in the form of **coins** (metal pieces stamped by authority).
- **Currency** = anything that circulates from person to person in exchange.

4. Functions of Money

1. **Medium of Exchange** – makes trade easy, removes barter problems.
2. **Unit of Account** – a standard measure of value for goods and services; divisible and countable.
3. **Store of Value** – can be saved and used later, value should remain stable.
4. **Standard of Deferred Payment** – accepted way to pay debts in the future.
5. **Measure of Value** – gives goods a common value for comparison.

Primary Functions: Medium of exchange, Measure of value.

Secondary Functions: Store of value, Unit of account, Standard of deferred payment.

5. Phases in the Evolution of Money

- ✓ **Animal Money** – animals used for trade in primitive times.
 - ✓ **Commodity Money** – goods like grain, cattle used; but lacked uniformity and durability.
 - ✓ **Metallic Money** – coins of gold, silver, bronze, etc.; good but limited for large trade.
 - ✓ **Convertible Paper Money** – receipts convertible into gold/silver; risk of over-issue → **inflation**
 - ✓ **Fiat Money** – state-issued currency (coins, notes); depends on political and economic stability.
 - ✓ **Bank Money** – credit money (M1: coins/notes, M2: deposits, M3: term deposits).
 - ✓ **Super Money** – modern system linked to stock market values, used as collateral for loans.
 - ✓ **Electronic Money** – digital payments, safer, cheaper, avoids theft.
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6. Principles and Methods of Note Issue

- **Currency Principle** – central bank keeps 100% gold for notes. Safe, but not elastic.

- **Banking Principle** – issue notes according to trade needs. More elastic, but risk of over-issue.

Methods:

1. **Fixed Fiduciary System** – part backed by securities, rest by gold. Lacked flexibility.
 2. **Proportional Reserve System** – certain % gold, rest securities. Rigid system.
 3. **Minimum Reserve System** – small reserve of gold/foreign exchange, rest flexible. Elastic but notes nearly inconvertible.
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7. Significance of Money in Capitalist Economy

- In capitalism, resource allocation, production, and distribution are guided by demand & supply.
 - Money is essential: affects output, income, employment, consumption, and overall welfare.
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8. Defects of Money

- ☒ Demand for money is indirect.
- ☒ Not a good store of value during hyperinflation.
- ☒ Creates inequality and encourages corruption.

Yet, despite defects, without money production and trade cannot exist in today's world.