

[FlexiPrep: Downloaded from flexiprep.com \[https://www.flexiprep.com/\]](https://www.flexiprep.com/)

For solved question bank visit [doorsteptutor.com \[https://www.doorsteptutor.com/\]](https://www.doorsteptutor.com/) and for free video lectures visit [Examrace YouTube Channel \[https://youtube.com/c/Examrace/\]](https://youtube.com/c/Examrace/)

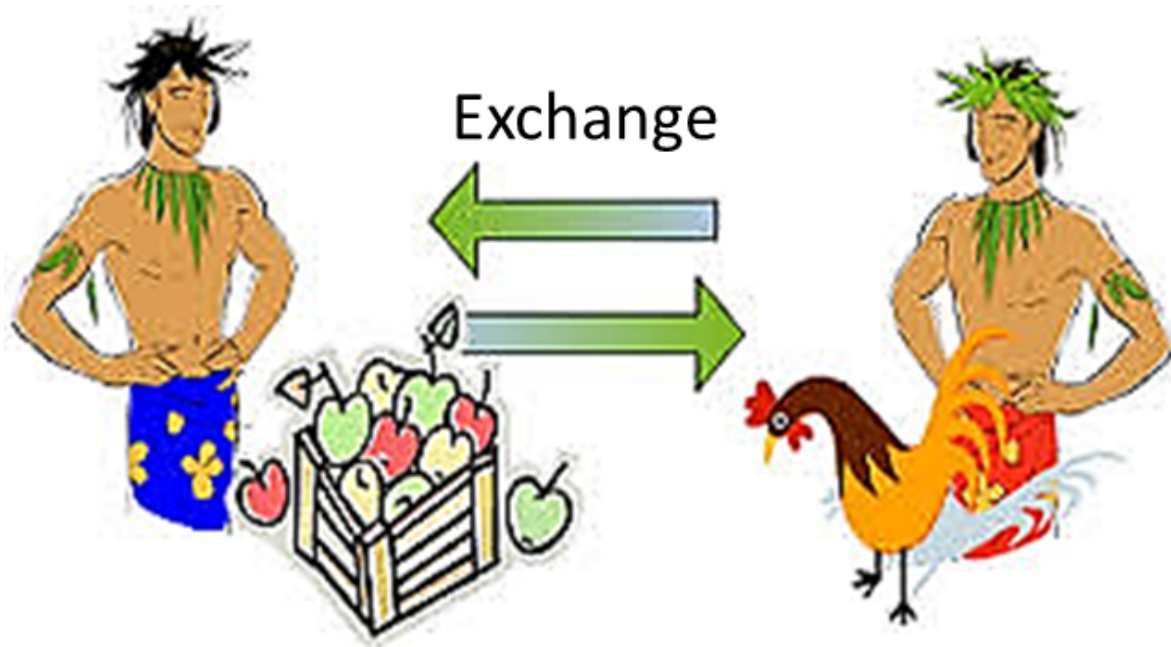
Money and ITS Role: Barter System, Advantages and Disadvantages of Barter System

Doorsteptutor material for competitive exams is prepared by world's top subject experts: [get questions, notes, tests, video lectures and more \[https://www.doorsteptutor.com/\]](https://www.doorsteptutor.com/) - for all subjects of your exam.

Money is part of our life. Money is linked with every activity that is carried by human-beings. In present world if we want something, we need to pay some money to get that commodity or service. And money creates an opportunity to turn any activity into economic activity. Money is the unique mode of exchange in the present world. Present form of money was not there in earlier days, there was barter system. The medium of exchange changed over centuries.

Barter System

In earlier days there was no common medium of exchange for trade. People exchanged services and goods for other services and goods in return. This was started in early 6000 BC. There was no involvement of money in barter system.



Examples

- In the past traders from Europe used to trade goods such as fur and crafts in return for perfumes and silk from the Eastern part of the world.
- People exchange food grains in return for clothes or other goods.
- People in various occupations, namely, farmers, artisans, cobblers, carpenters etc. used to exchange their products and services among themselves.

Advantages of Barter System

- It is the simplest system of trade which involves no complications.
- Since no money is involved people will produce and consume only what they want and there is no under or over production.
- There is no control over exchange value. Value of exchange depends on trader's negotiations.

- No problem of foreign exchange. In barter system we can trade with any country as we do in domestic market.

Disadvantages of Barter System

- The value of goods traded may not be equal. As there was no standard measure.
- Lack of double coincidence of wants. E. g. A person wants cloth and he have rice with him to offer in return but the person who has cloth may not want rice.
- Need to spend lot of time in searching for the person who was ready to exchange.
- Lack of division of goods. E. g. A person wants clothes and he have cow with him. He may not offer whole cow to get just clothes as he feels that's not worth of exchange. And he could not divide the cow into pieces.
- Also, problem regard to transport and communication.
- A good loss its original quality and value if it is stored for a long period. Many goods, such as salt, vegetables etc. , are perishable, may not be used for frequent trading.

Later on, people considered cows, salt, shells and beads as a medium of exchange. After that, Kings introduced different metal coins which were minted with their portrait and name. Kings used gold, silver, bronze and copper metals to mint coins. They were accepted within the kingdom. As times goes on, many changes occur. Money as medium of exchange was introduced.